EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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MIDDLE EAST
Nightmare of Arab dreams of unity
Page 19

World News

Baker rejects fresh China trade and aid sanctions

James Baker, US Secretary of State, rejected a package of further sanctions against China approved in the House of Representatives by 418-0. He said he could not support an amendment to a foreign aid bill, but stopped short of saying it would be vetoed. Page 6; China: The business view, Page 6

Uno still pressed
Japan's Prime Minister Sosuke Uno met groups of religious leaders and women executives in a bid to overcome his image as a womaniser. Page 20

Kremlin meeting
The Soviet Union's Communist leadership gathered for a meeting which may have brought changes in the party's ruling Politburo. Page 2

Drugs sacking
Cuba's interior minister, General José Abrantes, has been fired, the first high-level government casualty in a drugs scandal. Page 6

EC ethnic protest
The European Commission is to delay the next round of trade talks with Bulgaria to protest over the Sofia government's expulsion of ethnic Turks. Page 3

Global peace move
Non-aligned countries issued an appeal to the world community to strengthen the role of international law in settling disputes. Page 3

PLO asked to talks
Robert Pelletreau, US ambassador to Tunis, started meetings with a range of Palestine Liberation Organisation leaders as part of an effort to broaden the PLO-US dialogue. Page 3

Czech arrests
Czechoslovak police arrested four men linked to dissident groups on charges relating to arson and murder.

Bridge allegations
Denmark and the European Commission are heading for a row over allegations of unfairness in the award of a DKr2bn ($268m) contract for a giant road and rail bridge.

Warrants issued
A judge issued arrest warrants for four executives of Ford Motor Company's Venezuelan subsidiary for alleged corruption in the purchase of preferential-rate dollars.

Apartheid meeting
120 white South African liberals arrived in Zambia for talks with the outlawed African National Congress on ways of ending apartheid, De Klerk campaign, Page 20

Hungarian protest
Hungarian wheat farmers jammed roads out of the capital Budapest with harvesters, trucks and tractors in a brief strike for higher prices.

Marcos coma threat
Former Philippines President Marcos was in a semi-coma, Hawaii officials said.

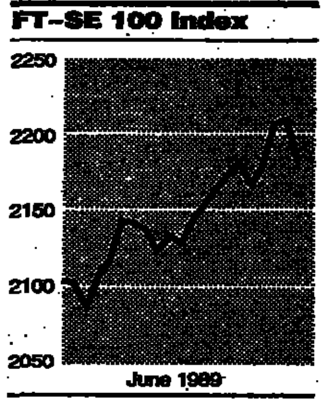
Open sesame
A new top security prison in Queensland, Australia, has altered its electronic security system after being warned that radar interference from a neighbouring air base could open all the cell doors.

Business Summary

Swiss Bank to redirect operations after losses

SWISS Bank Corporation, second largest Swiss bank, announced that it would redirect its international investment banking operations after two years of large losses, and said it would change the focus of its domestic investment banking business. Page 21

LONDON Markets: The Bundesbank's decision to lift interest rates jolted confidence in the London stock market



bringing a sharp setback in an equity sector unsettled by signs of an increasing slowdown in the US economy. The FT-SE 100 Index fell below the 2,200 mark regained two sessions ago. LSE, Page 37

BANC One, rapidly growing regional bank group based in Columbus, Ohio, has won the contest to take over most of MCorp, troubled Dallas holding company which was the last surviving independent bank group in Texas. Page 21

SHARE price of TSB, sixth largest UK banking group, fell sharply after news of a steep drop in pre-tax profits during the half-year ended in April. Page 21

DREXEL Burnham Lambert, Wall Street investment bank which financed the growth of Integrated Resources, stepped in to assist the collapsing financial services group with a cash injection of $300m. Page 22

CHINA: Customs service figures show an alarming growth in imports of 24.5 per cent, producing a trade deficit of $4.6bn. Page 8

SCHINDLER, Swiss lift manufacturer and the first foreign company to enter a joint venture in China in 1980, plans to go ahead with the investment in new plant at Suzhou. Page 6

INTERNATIONAL trade in manufactured goods emerged as a factor fuelling inflation in the industrial world, according to the Organisation for Economic Co-operation and Development. Page 4

PANOCEAN Oil Company settled a four-year dispute with Nigeria and resumed its purchases of crude oil from the Nigerian National Petroleum Corporation, the Swiss-based company said. Page 25

ALAN Bond, Perth businessman, hit back at his critics and the Australian Broadcasting tribunal with a paid-for announcement in international publications to be published next week. Page 25

DIRECTORS of Elders IXL, Australian brewing and agribusiness giant, set speculation running by telling shareholders not to sell their scrip pending a further announcement. Page 25; Lex, Page 20

CINCINNATI Milacron, US machine tools group, expects to report second-quarter sales and earnings lower than most forecasts by industry analysts. Page 22

HAVAS, French advertising and media group, launched a FFr1.58bn ($237m) rights issue, with attached warrants allowing it to raise up to FFr1.74bn more. Page 23

Haughey forced to quit in Irish constitutional crisis

By Kieran Cooke in Dublin

MR CHARLES HAUGHEY, the Irish Prime Minister, was forced to resign last night after losing a vote in the Dail, the Irish Parliament, on his continued leadership of the country.

Mr Haughey immediately went to Dr Patrick Hillery, Ireland's President, to inform him of the situation. Mr Haughey is to stay on as the country's caretaker prime minister until the Dail meets again on Monday to once again attempt to elect a prime minister and form a new government.

Mr Haughey's resignation was attended by high political drama and considerable constitutional confusion. At first he had refused to resign. Mr Haughey's Fianna Fail Party, in power for the past two years, lost Dail seats in a recent general election, though it is still the largest political group in the Dail.

Yesterday Mr Haughey first lost the Dail vote on his nomination to continue as prime minister by 86 votes to 78. Mr Alan Dukes, leader of the main opposition Fine Gael Party and Mr Dick Spring, leader of Ireland's small Labour Party also failed to be nominated as prime minister.

Mr Haughey then proposed that he stay on as prime minister and the Dail meet next week to review the situation. In the meantime talks on forming a new government should be held between the various parties.

"What the country needs at this critical juncture in its economic development is a period of continuing stability. The paramount task now is to provide a government that can meet the challenges facing the country," Mr Haughey told the Dail. But opposition members said that the Dail could not simply be adjourned. Mr Haughey must, according to the constitution, resign first.

Dr Garret Fitzgerald, a former Fine Gael prime minister, accused Mr Haughey of not abiding by the constitution by staying on in his post.

The Dail was adjourned for two hours to consider the matter and for consultations with constitutional lawyers. Mr Haughey was eventually forced to capitulate. "The situation is unprecedented," said Mr Haughey. But he said that in Ireland's proportional representation electoral system the present impasse might occur again.

"It is critical that the constitution be upheld," he said. Therefore he was tendering his resignation though he would not be requesting the dissolution of the Dail.

Earlier Mr Haughey had said that another General Election would not be in the best interests of the country.

Discussions will now be held between Fianna Fail, Fine Gael and the small Progressive Democrats Party to try to form a new administration.

In mid June Mr Haughey called an election to try to secure a majority for his Fianna Fail minority administration. In the event he lost votes in vital marginal constituencies and Fianna Fail now has only 77 of the 166 seats.


Haughey: resigned

Bundesbank leads round of rate rises throughout Europe

By Simon Holberton in London and Andrew Fisher in Frankfurt

WEST GERMANY'S Bundesbank yesterday led a co-ordinated round of interest rates rises throughout Europe with an increase of half a percentage point in its discount and Lombard rates to 5 and 7 per cent respectively.

The Bundesbank's decision, which took West German interest rates to their highest level since December 1982, was taken to damp potential inflation, keep money supply growth at a moderate pace, and strengthen the D-Mark.

The action by the West German central bank's policy-making council was also part of a carefully orchestrated rise in interest rates by most members of European Monetary System. Some central bankers said it underlined their commitment to the co-ordination of monetary policy in the wake of this week's European Community Summit in Madrid.

Before the Bundesbank council met, the central bank had indicated to the European central banking fraternity that another rise in rates was likely to be sanctioned. Soon after the decision was announced, France, the Netherlands, Belgium and Denmark, together with Austria and Switzerland raised their main money market interest rates.

Spain, which joined the exchange rate mechanism of the EMS just over a week ago, declined to follow suit. Given the peseta's strength, it appears to have taken the opportunity to allow a narrowing of interest rate differentials between the Spanish currency and the D-Mark in the hope that upward pressure on the peseta might abate.

The rise in European interest rates left the dollar largely unaffected. Although the market was surprised by the European interest rate rises, comments by Mr Pierre Bérégovoy, the French Finance Minister – that France would follow any increase in rates by the Bundesbank – dulled the impact of the West German move.

The dollar closed in London less than a pfennig lower against the D-Mark at DM1.9555, having recovered from a low of DM1.9450. Sterling, however, was driven lower, ending more than 2 pfennigs down at DM3.0350.

Analysts did not think yesterday's rise in West German rates would be the last this year. That view was given weight by the Bundesbank, which made clear that it was still concerned about the dangers of overheating in the economy.

Noting that demand pressures on the West German economy were increasing, the bank said potential rises in prices and costs were being strengthened by external influences.

Thus it saw the necessity to try to keep money supply growth as moderate as possible for the rest of the year and help strengthen the D-Mark's purchasing power.

As with inflation, down from an annual 3.1 per cent in May to a provisional 2.9 per cent last month, growth in the broad M3 monetary aggregate has already slowed down. In May, it was rising at a yearly rate of 5.4 per cent, not far out of line with the target of "around 5 per cent" set by the Bundesbank for 1989.

The extent of the Bundesbank's continuing worry about prices was emphasised last week in its monthly report, which referred to the "almost tempestuous" rise in foreign demand raising the trade and current account surplus.

The bank coupled its rate rises, which followed a surprise half point increase two months ago, with the announcement that next week's securities repurchase agreement (repo) with commercial banks would be at a fixed rate of 6.60 per cent, which suggests that the bank wants to keep money market rates below the increased Lombard emergency funding rate. Currencies, world stock markets, Section II

OECD predicts industrial slowdown

By Peter Norman in Paris

TIGHTER monetary policies over the past year are expected to produce a "significant slowdown" of growth in the industrial world, the Organisation for Economic Co-operation and Development said yesterday.

In its latest half-yearly Economic Outlook, the OECD suggests that Britain will have the slowest growth rate and highest inflation rate of the Group of Seven leading industrial countries both this year and next.

The OECD says growth in its 24-nation area is expected to slow to an annual rate of around 2.75 per cent over the next 18 months compared with an average annual expansion of 3.5 per cent between 1983 and 1988.

Growth in Britain will slow to 2 per cent next year after 2.25 per cent in 1989. Measured by the gross domestic product deflator, Britain is expected to have an inflation rate of 5.75 per cent next year after 6.75 per cent this year.

The OECD says the overall slowdown in its member countries should be more moderate than in previous episodes of monetary tightening and should contain inflation at around 4.5 per cent.

It notes that long-term borrowing costs have hardly risen. Company profits remain high and regional integration should stimulate investment.

It forecasts that private non-residential investment should be sustained at an aver-

Economic Outlook details, Page 4

Continued on Page 20

Leading Italian bank takes 5% of Salomon

By David Lascelles, Banking Editor, and John Wyles in Rome

ISTITUTO San Paolo di Torino, one of Italy's leading banks, is to spend about $150m (£97m) acquiring a 5 per cent stake in Salomon, the Wall Street investment bank, under a co-operation agreement announced yesterday.

Salomon will also buy a cross shareholding in the Turin-based bank.

But this will not be possible until the bank's present trust status is altered by law, which may not be for some time.

San Paolo will buy its shares in the market because Salomon currently has no need for new capital; in fact, its board recently extended a share buyback programme. Salomon's market capitalisation at its recent trading price of $25 a share is around $3.1bn. The two banks said the agreement, which is non-exclusive, covers co-operation in certain areas of securities distribution, asset securitisation and corporate finance.

In each of the agreed areas, people from San Paolo and Salomon will work together to develop projects in the Italian and US markets. The two institutions will also make markets in each others' stock once the stakes have been acquired.

Salomon will lead the US distribution of San Paolo shares when they are floated.

Mr John Gutfreund, Salomon's chairman, said the agreement was "extremely important" for his company. It was the first time Salomon had agreed to a foreign institution

Continued on Page 20

Thatcher rejects Delors blueprint

By Philip Stephens, Political Editor

MRS Margaret Thatcher, the British Prime Minister, yesterday bluntly repudiated the blueprint for full economic and monetary union set out in the Delors report and pledged that Britain would put forward an alternative plan for a much looser system of co-operation between European Community governments.

Reporting to the House of Commons on this week's Madrid summit, Mrs Thatcher also appeared to confirm that she has virtually ruled out full participation in the European Monetary System until after the next general election, due in 1992 at the latest.

Her statement appeared designed to emphasise that her more positive tone at the summit towards greater monetary co-operation within the Community did not imply that she had ceded any ground on the major issues of principle.

Flanked by most of her senior ministers, Mrs Thatcher promised to resist attempts in the Delors report to "coerce" Britain into ceding control of its tax and spending policies in a "federal Europe."

She said her acceptance in Madrid of the first stage of the report – involving greater liberalisation of capital markets, the completion of the single market and, eventually, full EMS membership – involved no further commitment.

The second and third stages of the report implied an unacceptable tranfer of sovereignty which was unlikely to be

Continued on Page 20

US pushes for liberal approach to Poland's debt rescheduling

By Peter Riddell, US Editor, in Washington

THE US is pressing for early agreement on a generous rescheduling package for Poland's debts by the Paris Club of creditor nations, with the help linked specifically to further progress on internal economic and political reforms.

This approach was confirmed yesterday by Mr James Baker, US Secretary of State, nine days before President George Bush visits Poland and Hungary ahead of the annual seven nation economic summit in Paris.

In particular, Mr Baker said the US would favour liberal rescheduling and not insist on the completion of an International Monetary Fund programme in advance, which the US and other western nations normally require.

However, Mr Baker made plain that the US regarded the $10bn economic package sought by Poland's Solidarity trade union movement as "probably not feasible or possible at this time." He said the US rejected the approach of the 1970s of "making available a lot of credits and concessionary lending that did not carry with them appropriate economic reforms."

Instead, the main immediate emphasis of the US and other western governments is on the Paris Club discussions on rescheduling Poland's official debts, which account for the bulk of its $39bn external borrowings.

Mr Baker hinted that the general approach to Eastern Europe might follow the lines of the agreement at last year's seven nation summit in Toronto on providing debt relief for poor countries of sub-Saharan Africa. He also noted recent US legislation permitting the US to grant debt relief in appropriate circumstances.

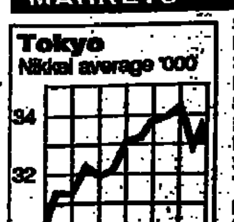
The poor state of the Polish economy has, however, created problems in these talks since the IMF, after a recent visit, indicated that an immediate loan agreement is unlikely and that a far-reaching economic reform programme would be required first. Similarly, while the World Bank is likely to approve $300m in loans to Poland in September, it is determined to see economic reforms.

While the US wants to tie any help to further moves towards a free market system and political pluralism, it accepts the need for an early agreement on debt rescheduling and is backed in this by both Britain and West Germany.

Mr Baker acknowledged yesterday that there were differences within the Paris Club as to whether or not World Bank loans should await completion of an International Monetary Fund programme.

Apart from any Paris Club help, Mr Baker noted the scope for bilateral assistance to Eastern Europe, giving the example of West Germany, which is Poland's main creditor and which is proposing to offer sizeable relief on an existing loan.

MARKETS



STERLING
New York close
$1.5435 (1.5580)
London:
$1.5525 (1.5580)
DM3.0350 (3.0575)
FFr10.3125 (10.3700)
SFr2.8050 (2.6275)
Y222.75 (222.0)

DOLLAR
New York close
DM1.9645 (1.9625)
FFr6.6670 (6.6620)
SFr1.6875 (1.6890)
Y143.80 (142.25)
London:
DM1.9555 (1.9645)
FFr6.6425 (6.6650)
SFr1.6780 (1.6890)
Y143.40 (142.75)

INTEREST RATES
US lunchtime
Federal Funds: $9\frac{5}{8}$% ($9\frac{3}{16}$)
3-mth Treasury Bills: yield: 8.194% (8.3)
Long Bond: $108\frac{11}{32}$ ($108\frac{3}{32}$)
yield: 8.091% (8.122)
London
3-month interbank: close $14\frac{1}{16}$% ($13\frac{15}{16}$)

GOLD
New York latest
Comex August
$373.9 (379.2)

STOCK INDICES
New York close
Dow Jones Ind. Av. 2,458.27 (-46.47)
S&P Comp 319.68 (-6.13)
London:
FT-SE 100 2,182.0 (-27.4)
World: 142.27 (Wed)
Tokyo
Nikkei Ave 32,922.50 (-289.29)
Frankfurt
Commerzbank 1,842.3 (-7.1)

OIL
Brent 15-day (Argus) $18.15 (+0.20) (July)
West Tex Crude $20.425 (+0.275) (August)

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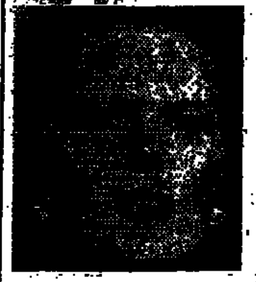
Has the UK Prime Minister's crown started to slide?



After celebrating a decade of power, more admirers of Mrs Margaret Thatcher, the British Prime Minister, are seeing her as a lucky and skilful politician who has been able to capture the incoming tide. Is it starting to ebb? Page 19

EUROPEAN NEWS

Politburo change presaged in Kremlin meeting

THE SOVIET UNION'S Communist leadership yesterday gathered for a meeting which may have brought changes in the party's ruling politburo, Reuter reports from Moscow.

Soviet and foreign Communist officials said they understood the meeting of the party's policy-setting central committee was to discuss "organisational questions."

In Moscow parlance, this phrasing covers personnel changes – either promotions or dismissals. The 250-member committee is empowered to alter the make-up of the politburo. But foreign diplomats said they had heard the meeting could be rather a "consultation" to prepare guidelines for a committee session next month on nationality problems.

"There is definitely something going on," said a political analyst at a Western embassy. But the fact that Mr Viktor Nikonov, a member of the Politburo, was earlier yesterday officially reported in the Soviet Far East suggested the meeting was not a full plenum.

Any significant shift in the Kremlin power balance to the benefit of liberals or conservatives, terms now openly used by Soviet commentators, could clearly affect the future of Mr Mikhail Gorbachev's perestroika reform programme.

There was no firm word from any Soviet official on whether the meeting was taking place but two central committee members – one in Moscow and one in the provinces – were not in their offices. An aide to the first said he was at "a high-level meeting." An aide to the second said he had been called to Moscow suddenly on Wednesday and was expected back at the weekend.

Mr Gorbachev and senior colleagues yesterday attended a morning session of the Supreme Soviet, the upper chamber of the country's new parliament, which is discussing the composition of a new government. As President, Mr Gorbachev chairs meetings of the body and also of its parent Congress of People's Deputies.

At the last central committee meeting to discuss organisational matters, held on April 25, Mr Gorbachev obtained approval for the departure from the party's top bodies of 110 veteran figures generally regarded as conservative.

One change widely expected is the promotion of First Vice-President Anatoly Lukyanov, a Gorbachev ally and long-time personal friend, from the politburo's junior, or non-voting, ranks to join its present 11 full members.

The next party congress is due to be held in early 1991 but Mr Vadim Medvedev, the Kremlin ideologist and politburo member, has said twice over the past week that he believed it could be brought forward.

● The Soviet people will have to wait at least two more years for perestroika to improve their standard of living, a senior Kremlin adviser said on Thursday, Reuter adds.

"(Given) their high level of education and scientific achievement...our people deserve a better life, not sometime in the year 2000 but now, tomorrow," leading Soviet economist Abel Aganbegyan told a business seminar, saying that improved supplies of food could take up to three years.

Terrible state of chassis in the Irish Dail

By Kieran Cooke in Dublin.

"THE WORLD," said Sean O'Casey, "is in a terrible state of chassis."

No better way to describe the present mess in Irish politics. "It is a very unusual situation," said Mr Charles Haughey, the Irish Prime Minister. "It is all perfectly clear," said Mr Alan Dukes, the leader of the opposition. "It's all a bloody great mystery to me," said the man in the Post Office.

The question is basically this: is Mr Haughey, or is he not, still the leader of the country? And, more to the point, does Ireland still have a Government?

Yesterday the Dail, the Irish Parliament, met to nominate a Prime Minister. It didn't. Mr Haughey was the first on court. He lost by 78 votes to 86.

Then it was the turn off Mr Dukes. Back to the changing rooms with a 51-103 loss. Mr Spring, leader of the small Irish Labour Party, took off his tracksuit and promptly lost by a big margin.

"The situation is unprecedented in the history of the state" said Mr Haughey. He said Dail deputies should think things over and come back to try to resolve things on Monday.

Oh no said the opposition. They had Mr Haughey on the run and wanted blood. Mr Haughey must throw in the shirt, take the honourable course, do the decent thing, take an early bath. In a word, resign.

The opposition benches said the Irish constitution was clear. The Prime Minister had no alternative but to go.

Mr Haughey disagreed. He had taken advice from the Attorney General and, according to his constitutional interpretation, could stay on in a caretaker capacity.

The opposition was still not satisfied. The redoubtable figure of Dr Garret Fitzgerald, opposition member and former Prime Minister, said Mr Haughey was abusing the constitution. The proceedings adjourned.

Opposition members gathered to pore over the constitution. Others poured over the Dail bar. Only Mr Brian Lenihan, Ireland's ever popular Foreign Minister, emerged from the proceedings with his reputation enhanced. He has just undergone a liver transplant operation in the US and was given a standing ovation as he entered the Dail.

Mr Haughey, meanwhile, left the Dail chamber wondering whether or not he was still Prime Minister. Sean O'Casey would have been intrigued.

Mr Harilaos Florakis (left), leader of Greece's Communist Alliance, pictured yesterday emerging from the hospital ward in Athens where he had held talks with the ailing caretaker Prime Minister, Mr Andreas Papandreou. The Alliance is pressing for a coalition Government despite rejecting proposals from the Conservative and Socialist parties.

Clash over pay index averted in Italy

By John Wyles in Rome

A DANGEROUS deterioration in Italian industrial relations was narrowly avoided yesterday when employers agreed to retain the *scala mobile* system of wage indexation for another year in return a vague trade union commitment to help contain rising labour costs.

The unexpected settlement followed secret negotiations in the wake of an apparently abortive discussion on Tuesday. Final details were agreed yesterday morning after some wrangling over the form of words which imply union recognition that labour costs are becoming a problem.

The result is that Confindustria, the main representative of Italian industry and the three union confederations, are to study the "the dynamic and structure" of labour costs "with the aim of encouraging behaviour on both sides which corresponds with the need for corporate competitiveness."

This is obviously the closest thing to an agreement on pay restraint that Confindustria felt it could achieve in the run-up to the renewal of key private sector pay deals in sectors such as engineering and chemicals at the year's end.

If it had gone ahead with its threat abandon wage indexation the atmosphere for these negotiations would have been seriously tainted, while the unions would have pulled out of discussions now under way on a package of important industrial relations reforms.

Mr Sergio Pininfarina, the president of Confindustria, said yesterday he was "very satisfied" with the agreement because it would "restore tranquility" to the relationship with the unions. He repeated the complaint that the growth in Italian labour costs had been more than double that of other industrialised countries in the last year.

Confindustria acknowledges that the 10.5-11 per cent rise in labour costs this year owes less to the *scala mobile* than to a L2,000bn ($914m) cut in government subsidies on employers' social contributions. According to Mr Pininfarina the ratio between average take home pay and actual cost to the employer is now 2.26 in Italy compared to 1.6 or 1.8 "in other countries."

He called for an urgent reform of social contributions yesterday at a meeting with Mr Ciriaco de Mita, the caretaker Christian Democrat Prime Minister, who was carrying out a round of consultations in his efforts to form a Government.

Before his Government resigned last month, Mr De Mita gave an undertaking that the subsidies on contributions would be restored next year, and the employers obviously want to see this commitment honoured in the next Government's programme.

Wages in Italy have been indexed against inflation for 14 years, but the degree of cover was greatly reduced in 1985 to around 40 per cent of the going inflation rate after a year of bruising confrontation at both industrial and political levels. Both sides were congratulating themselves yesterday at having avoided another clash without any involving any of the politicians.

Foreign trade gap widens in France

By George Graham in Paris

FRANCE'S foreign trade deficit worsened sharply last month to FFr6.6bn (£644m), after seasonal adjustments, with a marked deterioration in France's trade performance for industrial goods.

The industrial goods deficit deepened to FFr6.6bn from FFr5.4bn in April, despite the export of eight Airbus airliners worth FFr2.2bn, while France's traditional surplus in agricultural and food products narrowed to FFr3.7bn from FFr4.8bn in May. The energy deficit also worsened.

Mr Pierre Bérégovoy, the Finance Minister, said yesterday that the trade statistics confirmed his determination not to let domestic demand get out of control.

"We are not yet reaping the dividends from all the investments which have been made and which continue to be made at a rapid pace," he said.

May's trade figures, published yesterday by the customs department, show that exports fell by over FFr1bn to FFr92.6bn, after seasonal adjustments, while imports climbed by nearly FFr2bn to FFr99.3bn.

Somewhat more encouragingly, France appears to have improved its trading performance with its main industrialised partner, West Germany. The French trade deficit with West Germany fell to FFr3bn from FFr5.7bn, although its deficit with the other ten countries of the EC widened. The deficit with Japan remained stable at FFr2.4bn while that with the US widened slightly to FFr2.4bn.

Interpretations of France's trade performance have varied widely. After the relatively modest trade deficits recorded in the first three months of this year, some economists had thought that the heavy investment by French industry over the last 18 months in new capital goods was paying off in terms of competitiveness.

In April and May, however, imports of capital goods have again weighed on the trade balance, while exports of the same category of products have declined steadily.

Other economists, meanwhile, have criticised France's inadequate product specialisation as a cause of its persistent deficit in manufactured goods.

The Organisation for Economic Co-operation and Development, however, said in its half-yearly economic outlook, published yesterday, that French exports of manufactured goods might grow by 7 per cent both this year and next. The Paris-based organisation forecasts a trade deficit of $10bn this year and $11bn in 1990.

Commercial TV groups form defensive body

By William Dawkins in Brussels

FIVE EUROPEAN commercial broadcasting groups yesterday launched a joint body to defend the private television industry's interests in the European Community's single market.

The group, the Association of Commercial Television in Europe (ACT), is chaired by Mr Silvio Berlusconi, who also heads Fininvest, the Italian media empire.

He yesterday promised to defend the cause of free competition in broadcasting as well as the improvement of quality. "Every product is improved by free competition," he said.

The group, open to any private broadcasting company, also includes ITV of Britain, SAT1 of West Germany, France's TF1, and Luxembourg's CLT. It aims to provide a forum for exchanging ideas on ethics, EC regulations, programming and financing methods, said at ACT statement.

Mr Gaston Thorn, former European Commission president and now chairman of CLT, said it supported the Commission's broadcasting directive. This sets out a common legal framework for cross-border television transmission, and is currently awaiting member states' agreement after a last minute objections from several member states.

ACT will be among the first so-called European Economic Interest Grouping (EEIG), a new form of cross-border partnership which becomes possible under EC law on July 1.

The purpose of an EEIG is to promote or improve its members' performance. It is supposed to be a minor part of their activities and cannot employ more than 500.

Another example, being promoted by the Commission, is a partnership of EC electronics companies formed to promote European standards for high definition television.

Big consolidation forecast in Europe's broadcasting industry

By Raymond Snoddy

A WAVE of mergers and acquisitions in the European broadcasting industry, with deals totalling more than £3bn in the past 18 months, is the beginning of dramatic structural change in a traditionally fragmented industry, according to a survey by consultants Booz Allen & Hamilton.

The survey of the top 100 mergers and acquisitions in the European broadcasting sector since January 1988 covered deals ranging from digital processing, video duplication, programme production and libraries to distribution of video and cinema distribution.

"The volume of mergers and acquisitions surprised even us," said Miss Janice Hughes, main author of the study*.

"The process of change and commercialisation is already under way," she added.

External investors with interests as varied as water, construction, cars and hair care products are buying their way into broadcasting.

The arrival of companies such as Bouygues, Compagnie des Eaux, Fiat, Matra and others suggests that Europe may be about to follow the US where large industrial concerns have taken control of the three main networks.

They are attracted to a growing industry which Booz Allen expects to be worth £20bn a year by the year 2000.

"By financial market criteria, most European broadcasters are potential takeover targets especially when coupled with the revenue opportunities offered by deregulation," says Booz Allen.

In Britain, for instance, the Government intends to remove the present barriers to the takeover of broadcasting companies by 1993.

Many US media corporations are seeking access to "Fortress Europe" before 1992 but Europe's large media investors and publishing groups such as Bertelsmann, Hachette, Pearson (publishers of the Financial Times), Maxwell Communications, and News Corporation are also showing a strong desire to capture future television revenues.

**Strategic Partnerships as a Way Forward in European Broadcasting. Booz Allen & Hamilton 100 Piccadilly, London W1V 9HA. (no charge).*

Lisbon to speed moves towards EMS entry

PORTUGAL SAID yesterday it would speed up moves to join the European Monetary System following this week's EC summit, Reuter reports from Lisbon.

"The cabinet decided to speed up the national studies with a view towards the appropriate Portuguese participation in the stages of the EMS which begin in July 1, 1990," said a statement issued after the weekly cabinet meeting.

The first stage of the Delors plan, which takes effect on that date, steps up co-ordination of monetary policy and will eventually tie the escudo into a fixed band of exchange rates within the currency basket.

Portugal has resisted early entry to the EMS. Officials of the centre-right government cited high inflation, now running at about 13 per cent, and said Portugal would not join while Britain, a major trading partner, was outside.

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Swedish industry expects growth rate to decline

By Robert Taylor in Stockholm

THE SWEDISH economy is going through a period of "growth recession", which will worsen at least to the end of 1990, according to the latest forecast from the influential Federation of Swedish Industries published yesterday.

It suggests that, while the country's visible trade balance will continue to improve, going up from SKr29.6bn (£2.9bn) this year to SKr35bn (£3.4bn) next year, the balance of payments deficit will deteriorate further from SKr17.3bn this year to SKr18.0bn in 1990.

The report also believes that Sweden's economic growth rate will drop from 1.7 per cent this year to 0.5 per cent next, the lowest figure since 1981 and there will be a slowdown in the growth of private consumption – from 1.2 per cent to 1 per cent.

Inflation is expected to increase by 7 per cent this year with a further rise of 6.5 per cent in 1990, much higher than the average for OECD countries. The level of wage increases will average 8.5 per cent this year and 6.0 per cent next. As a result, unit labour costs per hour will remain a serious headache for Swedish industry, argues the prognosis.

This year they will go up by an average 9.5 per cent and 7 per cent next. At the same time the rate of productivity growth is expected to fall in industry from 1.5 per cent in 1989 to 1 per cent next year and industrial production growth to decline by a similar figure.

The Federation believes that Sweden's promised tax revolution, due to be implemented in January 1991, provides the country with a great opportunity to break out of its stagflation and become more internationally competitive by stimulating the incentive to work and helping to reduce cost push pressures.

But the report says that employers are worried that in the debate about the exact details of the tax changes too much emphasis will be put on the need to ensure that it does not lead to any widening of income distribution.

Other independent economic forecasts published in the past few days confirm the gloomy conclusions of the Federation of Swedish Industries. Skandinaviska Enskilda Banken, the country's leading bank, is even more pessimistic. It predicts a balance of payments deficit of SKr20bn this year and as much as SKr25bn in 1990, while wage increases will average 9 per cent in 1989 and 8 per cent next year.

Economic commentators are criticising the emergency measures to cool down the Swedish economy, which includes compulsory savings because they will increase rather than reduce tax pressures.

Cracks widen in the Communist monolith

James Blitz and **Judy Dempsey** watch the Eastern bloc countries drift apart

EACH WEEK brings another example of an unstoppable process in Eastern Europe: the once monolithic Communist bloc is splitting up and the mutual distrust among its members is growing.

Last week, for example, both the Czechoslovak and East German propaganda chiefs launched blistering attacks on the Hungarian party leadership, after it had ceremonially reburied Imre Nagy, the Hungarian leader during the revolt against Soviet rule in 1956.

This week, the Hungarians have got their own back, broadcasting an interview with the Czechoslovak dissident Vaclav Havel, on television. "Of course, everything that is happening in Hungary, Poland and the Soviet Union is a threat to our ruling clique (in Czechoslovakia)," he is reported to have said.

These attacks and counter-attacks reflect Eastern Europe's division over one fundamental issue: how to respond to Mr Mikhail Gorbachev's message of reform?

In one group stand Poland and Hungary which are carrying out political and economic liberalisation. In the other are the states now dubbed "the Gang of Four": East Germany, Bulgaria, Czechoslovakia and Romania, whose leaders show unflinching determination not to relax their grip on politics.

The Gang of Four's conservatism can partly be explained by its leaders. Bulgaria's Todor Zhivkov, Czechoslovakia's Milos Jakes, East Germany's Erich Honecker and Nicolae Ceausescu of Romania all climbed the political ladder in the stagnant years of President Leonid Brezhnev.

So, too, did General Wojciech Jaruzelski, who introduced martial law in Poland in 1981 and is now carrying out political reform.

But Poland, like Hungary, has undertaken some attempts at economic reform in the past, so that the current political transition is not a complete break with the past.

The main effect of the ideological differences has been to foster alliances within the bloc, which, in turn, have fostered clashes. The recent tensions between Hungary and its hard-line allies have been preceded by previous ones, including:

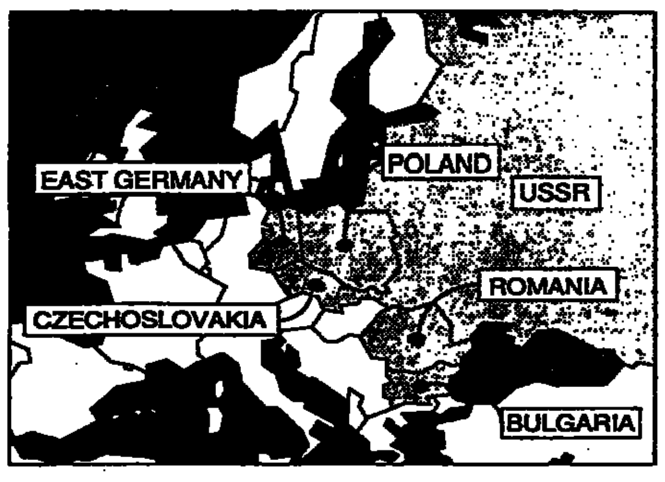
- tensions between Hungary and Czechoslovakia over Budapest's cancellation of their joint project on the Gabcikovo/Nagymaros dam;
- tensions between Hungary and Romania over the treatment of ethnic Hungarians under President Ceausescu's restructuring of the Romanian countryside;
- tensions between Czechoslovakia and Poland over the official showing of a play by Vaclav Havel in Warsaw.

An even more ominous development in the relationships between the countries in the bloc has been the formation of tacit alliances. In March, for example, Hungarian television broadcast a two-part interview with Mr Alexander Dubcek, Czechoslovakia's leader during the 1968 Prague Spring. This led to a blistering outburst from Prague, with Prague Radio asking whether Hungary was still a socialist state.

More significantly, the East German authorities supported Prague's concern about the Dubcek broadcast, by reprinting several critical articles from the Czechoslovak media condemning the interview.

Indeed, this "tacit alliance" among the hard-line states goes beyond the East Berlin/Prague axis.

East Germany has also handed the glove of solidarity to Romania whose relations with Hungary and Bulgaria are far from cordial. In an unexpectedly laudatory commentary, East German television recently described Romania's ability to repay its foreign debt as "an extraordinarily positive effect on the country's situation."



The loosening of the East European alliance is principally the result of Mr Gorbachev's relaxation of Soviet rule over the region. What was once Moscow's sphere of influence is gradually turning into a sphere of interest.

Communist countries, Mr Gorbachev says, can now determine their own roads to socialism without fear of interference from the Kremlin. Although there has not been a firm repudiation of the Brezhnev doctrine (as President George Bush has demanded), Mr Gorbachev has confirmed that the Soviet invasion of a country which is deviating from Moscow's line is out of the question.

Last March Mr Gorbachev told Mr Karoly Grosz, then Czechoslovak party leader: "There must be maximum guarantees that outside force should not be used to resolve the internal affairs of Socialist countries."

Another encouragement to reformers has been the announcement that a quarter of Soviet troops in the region will return to the USSR before 1990. The withdrawal has been an enormous psychological spur to the bloc's reformers.

All this does not imply, however, that the Soviet leadership is turning a blind eye to East Europe. With so many domestic problems of his own, Mr Gorbachev's chief concern is that the region remains stable, and that tension between the countries' Communist leaderships and their respective peoples are eliminated.

If, for example, the recent demonstrations in Prague, which were firmly crushed by the Czechoslovak authorities, were to berepeated on a wider scale, this would lead to superpower tension. Western countries would call on Mr Gorbachev to stick to his principles and to openly support democracy in Czechoslovakia, while the Soviet leader would feel a natural obligation to stand by the local Communist party. In the course of such a crisis, East-West detente could be seriously undermined.

As a result, the Kremlin has resisted any inclination to join Western criticism of the Czechoslovak and East German leaderships which in recent months have clearly contravened the Vienna declaration on human rights. Stability is the Kremlin's watchword: the hard-line leaderships are useful if they keep their people under control.

Conversely, the Soviet leadership has expressed its concern about the recent election results in Poland, in which many party officials suffered defeats, by remaining silent about them. Hardly any comment on the result has appeared in the Soviet press, reflecting the Kremlin's anxiety about the impact of a weaker party on the stability of Polish society.

Poland is not Mr Gorbachev's principal worry, however. What may concern him more is the effect of the Hungarian and Polish reforms on Czechoslovakia, which has one of the most conservative leaderships in the bloc and the most restless population.

The defeat of so many Polish party candidates will have reaffirmed the Prague leadership's fear of introducing a multi-candidate election. And Poland's example of competitive elections will make the Czechoslovak people feel all the more isolated from democratisation.

Here, in a nutshell, is the Soviet leader's dilemma. He has adopted a policy of non-interference in East Bloc affairs, but as the chasm in Eastern Europe between reformers and hardliners widens, so the dissatisfaction of people in East Germany, Bulgaria, and, above all, Czechoslovakia, will grow.

Madrid mayor falls to attack by right

By Peter Bruce in Madrid

SPAIN'S DIVIDED and fractious right-wing opposition parties won an important, but possibly Pyrrhic, victory yesterday by combining successfully to depose Madrid's Socialist mayor, Mr Juan Barranco.

He has been replaced by Mr Agustin Rodriguez Sahagun, a 57-year-old former minister in the UCD Government of Mr Adolfo Suarez in the late seventies and early eighties. Mr Sahagun is now a member of Mr Suarez' struggling centrist party, the Centro Democratico y Social (CDS).

Mr Barranco's minority administration in Madrid was outvoted 29-24 yesterday afternoon in a motion of censure presented by the CDS and the much bigger Partido Popular (PP), led nationally by the former Francoist minister, Mr Manuel Fraga.

Despite an enduring personal rivalry between Mr Suarez and Mr Fraga, the CDS and PP decided two months ago to bring motions of censure in a several cities where Socialists govern with minorities. Ironically, this played a key role in the CDS's bad losses in European Parliament elections two weeks ago.

Although the two parties have accused the Socialists of corruption and of bringing chaos to Madrid in their 10 years in power, it is highly unlikely that they will be able to effect changes quickly.

For one, their own political unity is suspect: Mr Sahagun has only been made mayor because, when the two parties made their censure pact, they thought they would be able to topple the Socialist government in Madrid province as well, and that this would be led by a PP nominee.

But that attempt has already failed, leaving Mr Fraga's party with nothing to show for its efforts to promote centre-right unity and inevitable difficulties in trying to secure posts for its people in the city government.

Mr Suarez, in an increasingly comical attempt to keep his distance from the PP, is still refusing to be photographed with Mr Fraga.

Key role for Britain in Soviet van project

By Kevin Done, Motor Industry Correspondent

THE Soviet Union has moved the location of an important new automotive project from Kirovabad in the troubled republic of Azerbaijan to Bryansk about 350km from Moscow.

Kirovabad was one of the cities worst hit by the wave of ethnic unrest that spread through Azerbaijan and Armenia late last year.

The project has been moved to a former military vehicle plant in Bryansk, which had substantial surplus capacity as a result of Soviet moves to reduce military expenditure and switch to operations for civilian use. The plant is believed to have manufactured trailers for SS-20 missiles, the intermediate-range missiles to be eliminated under the 1987 INF Treaty.

The so-called BAZ project involves the building of the Soviet Union's first modern light commercial vehicle for which the finance and design and engineering is largely coming from the Britain.

The UK Export Credits Guarantee Department, Britain's official export credit insurer which is backing the finance for the design and engineering contract, yesterday disclosed the change of strategy by the Soviet authorities.

It said it was guaranteeing a £29.2m loan to the Bryansk plant by the Bank of Scotland in a consortium with Barclays Bank, Moscow Narodny Bank and Morgan Grenfell to finance the project.

International Automotive Design (IAD), the Worthing-based consultancy, was awarded the £34.4m contract last year by V/O Machinoexport.

The ECGD said yesterday that the IAD contract was for the design and development to production level of a medium/heavy panel van with a 1.5 tonne payload (3.5 tonnes gross vehicle weight). The vehicle would be tested in Britain and manufactured at Bryansk.

Additional tooling, plant and equipment is also to be supplied, and IAD will assist with the development of the manufacturing facility. It is understood that the project could eventually generate design engineering and plant and equipment orders to UK and Continental European companies worth £150m-£180m.

It was disclosed yesterday that the Ricardo Group, the Shoreham-based engine and automotive engineering consultants, have signed an agreement with the Soviet Union for the development of a 2.5 litre, four cylinder diesel engine, which would be used in the BAZ vans. The agreement is still to be ratified.

The BAZ plant is being planned for an initial capacity to produce 30,000 vehicles a year and is scheduled to come into operation in the second half of 1992.

Most of the output is earmarked for the Soviet market, but some versions will also be specially produced for export to Western Europe.

Commission puts off Bulgaria trade talks

THE European Commission is to delay the next round of trade talks with Bulgaria, as a demonstration of EC disapproval of the Sofia government's expulsion of ethnic Turks, writes David Buchan in Brussels. Though Brussels still intends to reach a trade and economic co-operation accord with Bulgaria, as with other Comecon countries, the delay is another sign that the EC is co-ordinating more closely the political and economic elements of its policy towards Eastern Europe.

OECD OUTLOOK

Industrialised nations' priority must be to curb inflation

By Peter Norman, Economics Correspondent, in Paris

THE MOST pressing task of economic policy facing the industrial nations is to prevent inflation gathering momentum, according to the Organisation for Economic Co-operation and Development.

In its latest half-yearly Economic Outlook, the OECD says inflation in its 24 nation area has increased by a full percentage point over the past year and is currently running at an annual rate of around 4.5 per cent.

The OECD believes that monetary policies have been tightened sufficiently to cause inflation to stabilise at around current levels and then ease very slightly in the second half of 1990. But it said considerable uncertainty exists about the underlying strength of demand and inflationary pressures. Doubts also surround the extent and timing of the effects of monetary tightening.

The Paris-based think tank of the major industrial nations warned that further prompt monetary tightening would be required in the coming months if inflationary pressures turn out to be stronger than they appear at present.

Prompt action could be especially important in economies, like Britain, where inflation has already moved up to uncomfortably high rates.

The OECD said its latest projections suggest that 10 member countries will experience price increases of more than 4 per cent in 1990. These are the US, Italy, Britain, Canada, Australia, Finland, New Zealand, Portugal, Spain and Sweden. Greece, Iceland and Turkey will have still higher inflation.

In these circumstances, "for many countries, merely to prevent an increase of inflation would be to fall well short of stated-medium term objectives," the OECD said.

However, the OECD Outlook recognises that the industrialised economies are "in substantially better shape than they were at the start of the 1980s."

The present economic upswing is in its seventh year. In 1988, the gross national product of the 24-nation group grew by more than 4 per cent, driven notably by a rapid expansion of investment. Productivity in OECD countries has generally improved since the early 1980s.

The average OECD unemployment rate has fallen to around 7 per cent: a level last seen in 1981. OECD employment has risen by 9 per cent, equivalent to 29m additional jobs, since its 1982 trough in the recession of the early 1980s.

But the OECD said governments must tackle a number of problems besides resurgent inflation to sustain this improvement.

Exchange rates have recently been unstable. The position of Third World debtor nations has deteriorated. Unemployment remains high in many OECD countries and in the OECD area is projected to increase to 28.25m next year from 27.5m this year. Youth and long term unemployment have been slow to decline. Savings rates need to increase to sustain investment.

In some countries budget deficits are too high while throughout the industrialised world more should be done to improve public expenditure and tax systems, the OECD said.

The OECD said these problems require action across a full range of policies – monetary, fiscal and structural. It said co-operation among OECD countries needs to be extended and strengthened beyond the monetary sphere.

It said structural reforms are required on a broad front to stimulate growth and employment and reduce the gap between the huge US current account balance of payments deficit and the large West German and Japanese surpluses.

According to the OECD, "the most pressing international priority" is to use the Uruguay Round of trade liberalisation talks effectively to strengthen the multilateral trading system and reduce the inefficiencies and high costs of agricultural policies.

The OECD has estimated that current agricultural policies cost consumers 1 per cent of their income each year over and above the financial benefits to farmers.

It said mutual surveillance of structural reforms could help the world economy.

On exchange rates, the organisation made it clear that a further rise in the dollar's value or "the emergence of a strong and persistent downward pressure on it" could increase the policy problems faced by member governments.

Further upward pressure on the dollar could bring higher inflation to low inflation countries like Japan and West Germany and would hinder the process of reducing the current account imbalances.

Over the next 18 months the OECD sees a further reduction in the US deficit but some increase in dollar terms in the Japanese and West German surpluses. A sharp dollar fall would make it more difficult for the US to control inflation, and could push US interest rates to levels jeopardising economic activity.

"These alternative possibilities point to the need for co-operative actions across the full range of policies in order to minimise the risks of exchange rate pressures getting out of hand." it said.

It noted that international monetary co-operation was aimed at broadly aligning the competitive positions among major countries. But countries should go further if they wished to reduce the current account imbalances. They should adjust the internal imbalances in their economies.

Besides the US, the OECD expects sizeable external deficits in Britain, Canada, Australia, Finland, Greece, Iceland, Portugal, Spain and Sweden. Outside Japan and West Germany, large surpluses are expected to persist in the Benelux countries and Switzerland.

It said countries in current account deficit should aim to raise national savings rather than squeeze investment. This could be achieved through cutting budget deficits where they exist and reducing tax disincentives to savings.

Countries with surpluses should remove structural impediments to investment in non-tradeable sectors of their economies and implement structural changes to boost domestic demand. The OECD specifically warned against relaxing budgetary discipline because these countries, with ageing populations, face rising social security transfers and need strong government finances.

Looking at its main members, the OECD said "it is a matter of urgency" for the US to enact specific measures to eliminate its budget deficit as planned by 1993. It commented that the recent agreement between President George Bush and Congress on cutting the deficit "seems modest in respect of this objective."

In addition, the US must reform its troubled financial institutions and make a clear commitment to strengthening the multilateral trading system. In a clear reference to recent US moves to brand Japan, India and Brazil as "unfair traders" under the super 301 provisions of the 1988 trade act, the OECD said it was especially important that the US "refrain from any action which would threaten the integrity of the Gatt system."

Japan should maintain strong non-inflationary growth of domestic demand. The OECD made clear that it favoured a gradual increase in the value of the yen in line with competitiveness trends. *OECD Economic Outlook No. 45. June 1989. OECD 2 Rue André-Pascal, 75775 Paris Cedex 16. FFr100. Or through HM Stationery Office.*

LATEST OECD PROJECTIONS

Real GNP (% change*)

	1988	1989	1990
US	3.9	3	2.25
Japan	5.7	4.75	4.25
W Germany	3.4	3	2.75
OECD Europe	3.5	3	2.75
Total OECD	4.1	3.25	2.75

Inflation (GNP/GDP deflators)

	1988	1989	1990
US	3.4	5	5.25
Japan	0.4	1.5	2.25
W Germany	1.5	2.5	2.5
OECD Europe	4.9	5.25	4.75
Total OECD	3.6	4.5	4.5

Current Account Bal of Payments ($bn)

	1988	1989	1990
US	-135.3	-123	-116
Japan	79.6	80	83
W Germany	48.5	48	53
OECD Europe	14.6	-2	-1
Total OECD	-61.8	-68	-57
OPEC	-15.9	-8	-5
Non-oil LDCs	1.8	-5	-15

Unemployment (%)

	1988	1989	1990
US	5.5	5.25	5.5
Japan	2.5	2.25	2.25
W.Germany	7.9	7.5	7
OECD Europe	10.1	9.75	9.75
Total OECD	7.3	7	7.25
World Trade**	8.7	7.5	7

*seasonally adjusted at an annual rate
**% change compared with previous period.

Source: OECD Outlook, June 1989

Worldwide monetary policies face up to first test

MONETARY POLICY in the industrialised world has been confronted with its first major test of containing a widely-based acceleration of inflation in an environment of substantially deregulated financial systems, the Organisation for Economic Co-operation and Development said.

In its latest half yearly Economic Outlook, the OECD said the tightening of monetary policy over the past year has been a "trial and error" process.

It said it is not yet possible to make firm judgments on how monetary policy should be conducted in the new environment.

The risk of monetary overkill coexists with the danger that policy may not have been tightened sufficiently to control inflationary expectations.

The OECD said deregulation has begun to change the way in which monetary policy is transmitted to the economy.

In competitive financial systems, monetary authorities are able to influence a broad spectrum of short term market interest rates.

This means that monetary policy may have stronger effects on consumption.

It is, however, a less dominant influence on long term interest rates and investment spending than previously.

The main influence on investment is now likely to come only after tighter monetary policy has succeeded in slowing economic growth, or at least changing expectations about the outlook for economic activity, the OECD said.

The OECD commented that in general monetary policy is forced to work more at the margin with changes in interest rates influencing the desire for new borrowings.

This is likely to influence an economy more slowly than credit rationing.

In its report, the OECD expressed some concern about the sharply rising ratio of non-financial corporate debt to equity in the US.

It said the junk bond market has not been tested in a recession so that it is "not inconceivable" that some risks may be underpriced.

However, it said the overall health of non-financial business in the US and the relatively limited involvement of banks in the junk bond business suggest that the US financial sector is not facing major systemic risks at this stage.

Warning on UK unemployment

BRITAIN'S unemployment rate may start to rise before the end of this year, reversing the downward trend that has been seen since 1986, the Organisation for Economic Co-operation and Development warned.

In its latest review of the world economic outlook, the OECD said that the progressive tightening of policies since the middle of last year should be increasingly felt during the course of 1989.

However, the Paris-based organisation warned against expectations of an early easing of Britain's two major economic problems – high inflation and the huge current account balance of payments deficit.

Inflation is likely to remain "unacceptably high" throughout this year and next. The OECD forecast that consumer prices, as measured by the private consumption deflator, will average 5.75 per cent this year and 5.25 per cent in 1990.

The OECD said Britain's external deficit may fall a little in relation to the nation's gross domestic product over the next 18 months. But on its normal assumption of unchanged nominal exchange rates, it expects the current account deficit will widen in absolute terms as Britain's trade performance is affected by a decline in its international competitiveness.

The OECD gives its current account projections in dollars, using the exchange rates of May 2, when the pound was worth $1.6835. It forecast an increase in Britain's current account deficit to $28bn (£16.63bn) this year and next, after $26.1bn in 1988. Although The OECD said the deficit will drop to $13bn in the second half of this year from $15bn in the first six months, it projected an increase to $14bn in the first half of 1990 and $15bn in the second half 1990.

The report warned that the outlook for the UK economy is hedged about with considerable risks. The extent of inflationary pressures could be underestimated while the anticipated slowdown in demand growth might be less pronounced than expected because of problems with British statistics and the erratic movement of various indicators in recent months.

It is also unclear how far retail price inflation, which has been boosted by the inclusion of higher mortgage interest rates in the index, will feed into a wage-price spiral.

The OECD said British GDP growth is expected to decline significantly to 2 per cent in 1990 from 2.25 per cent this year and 3.7 per cent last year.

Private consumption is expected to slow sharply because of high short term UK interest rates. Business capital spending will be less affected because of relatively stable longer term borrowing costs. However, the OECD said profit margins should be squeezed somewhat, damping business investment in 1990.

In response to slower output growth, The OECD said the increase in employment in Britain should decelerate with the employed workforce possibly dropping towards the end of 1990. The unemployment rate, which averaged 8.2 per cent last year, is expected to bottom out at 7 per cent in the second half of this year before rising to 7.5 per cent in final six months of 1990.

Trade in manufactured goods fuelling inflation

INTERNATIONAL trade in manufactured goods has emerged as a factor fuelling inflation in the industrial world, according to the Organisation for Economic Co-operation and Development.

In its latest Outlook report, the OECD said steeply rising capacity utilisation rates in most countries combined with rising currency values in nations with above average inflation have pushed up the prices of internationally traded manufactured goods by around 5 per cent over the past year.

This increase was higher than that of domestic producer prices or unit labour costs.

The OECD noted that manufacturing trade has grown strongly in recent years. It is now equivalent to more than 14 per cent of the gross national product of the 24 nation OECD area, having doubled since the early 1970s.

For much of this period, the growing trade in manufactures exerted downwards pressure on costs because of increased competition.

Now, however, manufactured goods prices are adding to inflationary pressures in a way previously associated with rising prices for imported raw materials.

The OECD said it expects the rise in export prices for manufactured goods will slow to between 3 per cent and 3.5 per cent annually over the next 18 months. But it said there is a risk of larger price increases as the OECD area approaches its capacity limits. "This could make the organisation's projection of 4.5 per cent inflation for 1990 in the industrial world "more precarious."

هكذا ضمن الأصل

OVERSEAS NEWS

De Klerk keeps his cards close to his chest

Anthony Robinson examines latest policy from South Africa's ruling Nationalists

INTERPRETING the code words of the National Party's political manifestoes has always been difficult. Its latest offering is no exception. There is comfort for those who believe it sets South Africa on the road to reform. Equally sceptics may point out that constant references to group rights suggest that, at the end of the day, there is no substantial change in the party's position.

Given the fact that its new leader, Mr F W de Klerk, needs to hold off challenge to the right and appeal to the left, this is not surprising. But the real test will not come until the National Party is re-elected.

It bears the hallmark of the party which fathered it – preoccupation with ethnic groups and insistence that they must be the building blocks of a future political arrangement – but shows a new openness to individual rights and the need for getting black/white power sharing talks on the road.

In essence the "plan" offers the National Party's formula for completing the political circle. Its aim, within the next five year mandate, is to bring blacks and other ethnic groups into a new political dispensation "without domination of one group by another" – to quote the almost incantational refrain of speaker after speaker at yesterday's federal congress in the Pretoria City Hall.

Before the NP is able to put its "new thinking" into practice however it first must win the general election on September 6. So the immediate function of the plan is to rally the party enthusiastically behind Mr de Klerk, who received the cautious endorsement of European leaders during his recent tour. Mr de Klerk also has the great advantage of not being P W Botha who in his latter years neglected the party and humiliated its other leaders.

De Klerk: tough road

It may have been the new double-breasted suit or the light. But the F W de Klerk who addressed the party yesterday looked bigger, sounded more confident and spoke with more authority than before his tour.

Party leaders and organisers confirmed that the new plan has put the party on a clearer course. It signifies that this election will be fought from the left, that the party has accepted the permanent loss of support on its right and will concentrate on winning the votes of the remaining 70 per cent of white South Africans who are either resigned to or are in favour of "reform".

The election will still be fought as a struggle on two fronts. As Mr de Klerk made clear yesterday, voters will be told that a vote for the Conservative Party is a vote for negativism, for the unrealistic dream of an Afrikaner "boerestaat", for the para-military bully boys of the Afrikaner Weerstandsbeweging (AWB) and for the economic disasters of Boksburg and Carletonville (two Conservative-controlled Transvaal towns boycotted by black consumers for trying to re-introduce petty-apartheid).

As for the challenge from the recently-formed Democratic Party on the left, Mr de Klerk dismissed the DP as nothing more than a re-hashed version of the now defunct Progressive Federal Party (PFF), a party deserted by the voters in 1987.

But fighting an election on a reformist ticket in competition with the Democratic Party will not be as easy as against the old PFP. The DP contains some tough political street fighters, like Mr Dennis Worrall, the former ambassador to London, and 32-year-old Mr Tony Leon who has wreaked havoc on the NP-controlled Johannesburg City Council.

Ethnicity and racial fears may still be the ultimate determinant factor in voting behaviour.

But this time round the National Party is also vulnerable on the economy, with 20 per cent mortgage rates and 15 per cent inflation and to charges of corruption and "fat cat arrogance" after over 40 uninterrupted years in power.

The Democratic Party, meanwhile is handicapped by a collective leadership and potential ideological division.

But it has surprised many people with the thoroughness and effectiveness of its organisation and the relative clarity of its views. Asked on television recently whether the party supported negotiations with the African National Congress (ANC), Mr Zach de Beer, of the former PFP contingent, stated clearly that it was in favour of including the ANC in talks because it believed that up to 50 per cent of blacks supported it. In which case it was logical to unban the ANC, release its leaders like Mr Nelson Mandela and talk.

That is pretty forthright language compared to the words of NP leaders or indeed to the "plan" which, in carefully unspecific terms, promises to defend group areas but allow "free settlement" areas for those who do not mind mixing; to uphold group rights but introduce a bill of individual rights and broaden the edges of group definition away from the purely ethnic; to uphold segregated education but provide subsidies for mixed schools.

Furthermore, although Mr de Klerk and others have hinted that they are seriously considering the release of Mr Mandela and others after the election they are making no commitments beyond that to "engage in talks and negotiations with recognised leaders of all groups committed to the pursuit of peaceful solutions."

Ultimately what the NP is offering the electorate under Mr de Klerk, as under his predecessors, is the party's proven ability to make compromises and concessions where necessary, crack down on "insurrection and revolution", if need be, defend the frontiers, maintain law and order and preserve "civilised values".

This time Mr de Klerk is going further than before but arguing that for this very reason voters should trust the party to open up black/white power sharing.

Far better, the suave Mr de Klerk is arguing, that the voters should opt for the party which has exercised power for decades rather than the "weak" and untried Democratic Party or risk economic disaster, foreign pressure and internal revolt by voting for the right.

The clincher for waverers on the left, of course, will be the warning that a vote for the Democrats, especially in wards where the Nationalists are facing a tough right wing challenge, will be tantamount to voting for the Conservatives.

The largest delegation of white South Africans yet to meet the banned African National Congress arrived in Lusaka yesterday for two days of talks, reports Nicholas Woodsworth from Lusaka.

The two-day conference is being attended by a 117-strong delegation, organised by the white South African Five Freedoms Forum, and ANC president Oliver Tambo and senior ANC officials.

The South African delegation is a broad-based one made up of academics, businessmen, community organisers, women's groups and United Democratic Front members, and includes veteran parliamentarian Helen Suzman.

The talks come at a time when the ANC is making tentative moves towards negotiations with the Pretoria government and is also designed to encourage the development of the liberal Democratic Party. The conference will focus on the role of whites in bringing about change in South Africa.

Hong Kong acts to curb insider trading

By John Elliott in Hong Kong

LEGISLATION aimed at curbing rampant insider dealing on the Hong Kong stock market was announced yesterday by the government.

The Securities (Insider Dealing) Bill, which tightens definitions of the practice and introduces new penalties is being gazetted today and is expected to become law by the end of the year.

This is the latest stage of Hong Kong's attempts to bring its securities markets up to international standards in the wake of the 1987 world markets crash which closed the local stock and futures exchanges for nearly a week.

Subsequent investigations have led to corruption charges being brought against senior stock exchange executives.

The definition of insider trading has been made more comprehensive to catch those contemplating a take-over bid as well as people using inside information. Also covered is dealing in securities of a related corporation, procuring or counselling someone to break the law, and promoting deals on an overseas stock exchange.

But the government has bowed to local pressure in the local community, where insider dealing is prevalent. It has decided not to follow international practice and make insider dealing a criminal offence. Instead those found guilty will face a series of civil penalties: disqualification from the directorship or management of a company for up to five years; the surrender of profits made or losses avoided; and payment of a fine up to three times the profits made or losses avoided.

Cases will be heard and penalties will be fixed by an Insider Trading Tribunal which was set up in 1976 but has not had any sanction apart from the power to publish its findings. The tribunal has only heard two cases.

Mr Stephen Ip, deputy secretary for monetary affairs, said yesterday that the government considered the sanctions were "tough". He added that it would reconsider the need for criminal sanctions in two or three years' time after it had reviewed the effectiveness of the new legislation.

Bush welcome for Mobutu

President Mobutu Sese Seko of Zaire, once reviled as a corrupt and brutal leader of one of the world's poorest countries, was welcomed in the US yesterday in his new rôle as peace-broker in southern Africa, reports Lionel Barber from Washington.

President George Bush congratulated the ex-Army General for helping to open a dialogue between the Angolan regime and Unita rebels and to bring about a ceasefire in the 14-year-old civil war.

President Mobutu is the first African leader to visit the White House under the Bush Administration. The two leaders exchanged a signed treaty aimed at promoting US investment in Zaire. With the administration pressing Congress to approve $60m in foreign aid for Zaire, Mr Mobotu stressed his regime had improved its human rights record.

The terms of the Angolan ceasefire and the role of Mr Jonas Savimbi, the Unita rebel leader, are believed to have been discussed at the White House. US military aid to Unita is to continue.

Uno: accused of saying he wanted to resign when he was drunk

Japan's ruling party leaders running scared

Ian Rodger on why the LDP is bracing itself for further blows

JAPAN'S ruling Liberal Democratic Party (LDP), reeling from a stunning by-election defeat last Sunday and from rumours in mid week that Prime Minister Sousuke Uno wants to resign, is bracing itself for another big blow on Sunday in elections for the Tokyo metropolitan government assembly.

If the LDP showing is poor, Mr Uno may have to step down immediately, a move that would throw the party into fresh turmoil. Even if the LDP's showing is respectable, the political situation will remain volatile, with additional challenges for the rattled ruling party looming in July. These are the Paris economic summit and elections for half the seats in the upper house of the Diet (parliament).

The rapid succession of reverses to hit the LDP in the past few weeks have been stunning, by any standards, to the point that party leaders are quite frightened by their predicament. Intra-party backstabbing, a normal feature of LDP life when things are calm, has reached extraordinary proportions, with even close aides of Prime Minister Uno apparently willing to publicise his erratic behaviour this week.

Bunker mentality

LDP speechmaking has taken on something of the bunker mentality, avoiding legitimate issues and concentrating instead on frightening the public about the possible consequences of voting for other parties. "You can vote for the Socialist Party if you want Japan to be a country like China," Mr Eiichi Nakao, chairman of the lower house budget committee in the Diet said the other day.

Some LDP insiders are even thinking of repealing the 3 per cent value added tax introduced on April 1, if only to deprive the opposition of a political issue. For all the scandals, the tax remains by far the biggest reason for the LDP's unpopularity these days. "We are going to go down, but we should not go like pigs to the slaughterhouse," a party strategist said yesterday.

Things started to go badly wrong for the LDP in mid-April. Revelations about former Prime Minister Noboru Takeshita's huge income from the Recruit publishing group set in motion the forces which led to his resignation early in June. Up to then, even though the Recruit bribery scandal had been very costly to the party – three cabinet ministers had had to resign – it looked as if the Government could weather it.

It has never been clear how the information about Mr Takeshita's links with Recruit came to public notice, although many people think it came from sources close to former Prime Minister Yasuhiro Nakasone, who at that time was coming under pressure from within the LDP to testify about his role in the affair.

However, Mr Takeshita's attempt to deal with the matter by coming clean in the Diet backfired badly. He thought that by testifying about his own role he could force Mr Nakasone to do likewise.

In the event, his confessions were increasingly succeeded by more revelations and his apparent dissembling, combined with the huge amounts of money he had received from Recruit, so shocked the public that within two weeks he announced he would step down.

Attempts to find a successor proved difficult, mainly because most of the men of power within the party had been tainted by the scandal. Eventually, Mr Takeshita, who controls the largest faction within the LDP, turned to Mr Uno, the foreign minister and a lightweight close to Mr Nakasone, and virtually forced his appointment. This enraged many groups in the party, some because Mr Uno's elevation upset the seniority system, others because it seemed to be giving a reward to Mr Nakasone.

Whether intra-party pique had any part in the initial revelations about Mr Uno's womanising is uncertain, it has been astonishing that the prime minister's own aides have been so willing to leak stories about his desire to resign and his apprehensions about going to the summit.

All of this has been happening against the background of a precipitous fall in the LDP's popularity. The downward path has turned steeper since April because of the unpopularity of the new VAT. The Takeshita cabinet's support level had virtually disappeared when it handed over to Mr Uno who took office on June 2. Mr Uno's first rating was the lowest on record for any incoming Japanese prime minister.

Last Sunday's by-election in rural Niigata prefecture not only confirmed the trend, but suggested something more ominous. It was bad enough that the LDP vote went down by a third, but worse that the support for the victorious Japan Socialist Party (JSP) went up by more than a quarter.

According to the latest polls, the LDP is in for another nasty shock in the Tokyo assembly elections on Sunday. One indicates that LDP support has dropped from 34 per cent at the time of the last election in 1985 to 26 per cent. On the basis of other soundings, one analyst has forecast that the party, which holds half of the 126 seats in the assembly, will lose roughly 10 of them. Meanwhile, the JSP is expected to raise its standing from 12 to 24 seats.

Up for grabs

The forces in the Tokyo metropolitan assembly are not exactly typical of the nation as a whole. For one thing, Komeito, a minor opposition party in the nation, is the strongest opposition party in Tokyo. Also, the LDP governor, Mr Shunichi Suzuki, (who is not up for election) is popular in his own right. Local LDP candidates have also tried to distance themselves from Mr Uno and other national leaders.

Meanwhile, the LDP is already agitated over the elections for half the seats in the upper house of the Diet on July 23.

Of the 126 seats up for grabs, the LDP needs to win only 54 to maintain its majority, but party leaders have already accepted that they cannot succeed. Moreover, there is a growing feeling within the party that if it wins many fewer than 54 – some talk of only 40 – then a general election will have to be called.

A few analysts are already talking about the possibility of a coalition government being formed by the JSP and defecting LDP members following a general election. But that is still a long way away and, as Mr Inoguchi said yesterday, "the Socialists themselves are still not preparing for that possibility".

Barring a miraculous recovery in the elections to come, the LDP is preparing to ditch Mr Uno. The only problem is finding a successor.

China records trade deficit of $4.6bn

By Colina MacDougall

CHINA'S customs service has published January-May 1989 trade figures which show an alarming growth in imports of 24.5 per cent over the same period last year.

With exports up less than 5 per cent in the first five months to $18.1bn and imports of $22.7bn China registered a trade deficit of $4.6bn. This level of deficit might not be too worrying, but it is likely to worsen since China's industrial growth is heavily dependent on imported raw materials and intermediate goods, as well as items such as grain and sugar, which make up much of the trade.

Exports have become increasingly sluggish, rising 4.7 per cent over the same period last year but only 0.8 per cent in May. A huge slump in tourism, already apparent in the current near-zero occupancy rates of Peking hotels, will seriously affect invisible earnings which normally help to fill the trade gap.

These customs figures belie the optimistic statement put out by Zheng Tuobin, Minister of Foreign Economic Relations and Trade, who said on June 15 that China had put an end to the export slump.

While the Foreign Economic Relations and Trade Ministry always calculates its figures differently from the customs administration, Zhang was painting a rosy picture to woo foreign businessmen back to China after the Peking massacre. Even in normal times the customs figures are generally believed to be more accurate.

Given the disruption of output and transport that took place in the first two weeks of June, exports are unlikely to pick up this month. Worker resentment at the crackdown on the students, certain to be felt at least in Peking and Shanghai, plus the reaffirmation of the austerity policy imposed last autumn to contain inflation, will undoubtedly continue to slow production.

Austerity has slowed industrial development, investment and spending, according to the China Daily earlier this week but overall the economy is not doing well. In the first quarter, output of crude oil fell and the rise in power production was the lowest in recent years. In the first five months, steel output dropped owing to energy and raw material shortages.

On June 2 China's Economic Daily newspaper reported that five crucial indices of economic improvement were not fulfilled in the January-April period.

"What does this mean?" asked Peking radio rhetorically. "It means that the nation's economic retrenchment is at a critical stage, and the nation is fighting an uphill battle." In this situation, trade seems unlikely to recover with any speed.

Britain expects to resume talks with China on the future of Hong Kong "sooner rather than later" and possibly before the end of the year, a British government official said yesterday, Reuter reports from London.

The official said there was no question of "business as usual" with China after what he called the massacre of pro-democracy demonstrators in Peking earlier this month. But Britain was committed to negotiating the terms of a Basic Law under which Hong Kong will be governed after it returns to Chinese rule in 1997, he said.

Political hostility blocks return of US oil companies to Libya

By Andrew Gowers, Middle East Editor

POLITICAL hostility between the US and Libya is blocking an agreement between the Tripoli authorities and five American oil companies about the conditions on which they might resume operations in the country.

The future status of the oil companies, whose Libyan assets were frozen after the US imposed economic sanctions on Libya in 1986, was supposed to have been resolved by today, when a so-called "standstill agreement" between the two sides is due to expire.

However, negotiations between the companies – Marathon, Conoco, Amerada Hess, Occidental and W.R. Grace – and Libya's National Oil Corporation (NOC) are set to continue, and the Libyans do not appear to be planning any precipitate action over the companies' assets, estimated to be worth upwards of $2bn.

Under the standstill agreement, the Libyan authorities agreed not to take any action affecting the assets – such as nationalising them – for three years after Washington imposed its ban on US oil dealings with Libya in 1986. With the expiry of this arrangement, uncertainty over the companies' status is bound to grow. Libya is keen to use this concern as a lever to persuade the US Administration to ease its continuing travel and trade restrictions.

Last January, in one of its final acts, the Reagan administration agreed to allow the US oil companies to resume limited dealings with Libya. But Washington – which continues to accuse Col Muammer Gaddafi, the Libyan leader – of sponsoring terrorism – has maintained the ban on visits to Libya by US nationals, on the export of US technology to Libya and on the import of Libyan oil.

In a series of meetings with Libyan officials in European cities including Vienna and Dusseldorf this year, the companies have offered to resume purchases of Libyan crude for sale to non-US markets, and to undertake payment of their share of operating expenses. But Libya evidently wants the companies to return unconditionally, probably with a US agreement to resume imports of Libyan crude. This seems most unlikely, since oil company representatives report that the Bush administration's line on Libya appears even tougher than that of its predecessor.

US broadens talks with PLO

By Jihan El-Tahri in Tunis

MR Robert Pelletreau, the US ambassador to Tunis, has embarked on a series of meetings with a range of Palestine Liberation Organisation leaders as part of an effort by Washington to broaden the scope of the PLO-US dialogue launched last December.

Until recently, Mr Pelletreau, who is the sole channel for the US Administration's contact with the PLO, had until April limited his meetings to the members of a three man Palestinian delegation led by Mr Yassir Abed Rabbo, a member of the PLO Executive Committee. But it emerged this week that he has recently held two meetings with Mr Salah Khalaf, the deputy leader of Mr Yassir Arafat's mainstream Fatah group within the PLO, to discuss Israel's proposal for elections in the occupied West Bank and Gaza Strip.

The US suggested during the latest round of dialogue held on June 8 that the PLO nominate Palestinians from the Occupied Territories to form a delegation that would negotiate with Israel details of the proposed elections.

Mr Pelletreau has also met another executive comittee member, Mr Mahmoud Darwish, and Mr Bassam Abu Sharif, media advisor to Mr Arafat. There is, however, no sign of a US decision to upgrade the dialogue by sending more senior officials to meet the PLO in Tunis. Meetings at a more senior level is a key demand of the PLO, anxious to step up the momentum of the peace initiative it launched last November.

PLO officials in Tunis said that US efforts to broaden the scope of the dialogue started emerging after Mr Pelletreau returned from a brief visit to Washington in April.

"The number of people Ambassador Pelletreau began meeting increased and the issues he started discussing were less restricted," said a high ranking PLO official.

Taiwan contrives to have its cake and eat it

Peter Montagnon examines the reaction in Taipei to the bloody events in the People's Republic

MRS SHIRLEY KUO, Taiwan's Finance Minister, created something of a stir this spring when she visited Peking at the head of Taipei's delegation to the annual meeting of the Asian Development Bank. Though she carefully refrained from contact with mainland officials, it was the first time that a Taiwanese minister had set foot in Communist China.

A repeat of this exercise is unthinkable for the time being in the wake of the Tiananmen Square massacre, but, despite vehement condemnation of the crackdown in Peking, senior Taiwanese government officials maintain that there will be no change in policy towards the mainland.

The nationalist Chinese government in Taipei will not relinquish its claim to be the legitimate ruler of all China, but nor will it abandon the pragmatic open door approach which has gathered pace over the last couple of years as the influence of the octogenarians who have ruled Taiwan for four decades has waned.

There is a curious ambivalence in this attitude which sits uneasily with the outpourings of denunciation against the Peking hardliners. It is born, at least in part, of the fear of mainland reprisals felt by the government of President Lee Teng-hui as well as of impotence resulting from years of international diplomatic isolation.

In practice, says Mr Yu-Ming Shaw, chief government spokesman, the current approach means there will be no end to the policy of permitting visits to relatives on the mainland or of official tolerance toward the lucrative indirect trade between the two Chinas running at some $2.5bn annually. About 500,000 Taiwanese travelled to the mainland last year on family visits and for sporting and cultural exchanges and Mr Shaw says this contact has influenced political developments there.

"We feel this is one of the reasons for the development of the democracy movement in Peking," he says and that is one reason why the open door policy should continue. The bloody crackdown, too, has vindicated the Kuomintang government's long-standing hatred of Peking's Communist rulers and will weaken them through isolation at home and abroad.

Yet, while Mr Shaw urges tougher economic sanctions by the West, the practical steps taken by his government have been strictly limited. The refusal even to make the symbolic gesture of banning indirect trade is justified in Taipei on the grounds that there is no practical means of stopping it.

Taipei has also been careful to discourage would-be refugees from the mainland whose presence would be a severe burden on a narrow island no more than 250 miles long that is home to more than 20m people.

It has offered finance as well as passports to mainland students at universities abroad so they can visit the island but will not allow any to take up residence unless they are actively involved in the democracy movement.

In the weeks following the massacre a military alert has been operating on the sealed island of Quemoy which is separated from the mainland by just 1.5 miles of water. The ostensible reason has been heightened fear of Communist attack, but Mr Shaw admits that this also has the effect of deterring would-be refugees.

There has been little sign so far of world condemnation of mainland China leading to a warmer acceptance of Taiwan internationally. Most European countries, including the UK from the start of this month, have begun to issue visas to Taiwanese travellers in Taipei. This is a novelty in that it requires an informal diplomatic presence, but it is mainly to ease trade relations and predates events on the mainland.

Mr Shaw says Taiwan, as the world's 13th largest trading nation, would like to join the General Agreement on Tariffs and Trade, but the *indications from its trading partners* are that the mainland would have to approve and there are still difficulties over finding a formula to distinguish Taiwan from the People's Republic, which is applying to take up the seat vacated by nationalist China in 1950.

One striking aspect of the response to the events in the mainland in Taiwan has been the relatively cautious public reaction of the man in the street. Fear of provoking mainland reprisals has meant that demonstrations in support of the democracy activists have been muted affairs compared with those in Hong Kong.

The crackdown caused a wave of selling on the Taipei Stock Exchange but the market quickly rallied to record highs and the panic was as nothing to the recent scandal over surrogate stock trading accounts.

For this reason it is difficult to gauge the impact of the mainland events on domestic Taiwanese politics which has been undergoing a slow process of democratisation since martial law was lifted two years ago.

One argument, particularly in the run-up to the legislative assembly elections due in December, is likely to be whether Taiwan should speed up its own political reform, but the most contentious issue is whether it should abandon its aspirations for unification with the mainland under non-Communist rule and opt for independent *development*.

This is the view of one faction within the Democratic Progressive Party, the main opposition party, even though its official line favours the more ambiguous objective of self-determination.

Some Taiwanese, particularly the younger generation born after the Communists seized power in the mainland in 1949, believe that the events in Peking could whip up additional support for independence as the elections approach.

But Mr Shaw counters by arguing that revulsion over the crackdown in Peking has united opinion in Taiwan against this. The mainland Communists have simply shown that they are not rational human beings. An independent Taiwan would be a weak country afraid of an unscrupulous mainland which would have no compunction in asserting its authority.

The steady policy of the Kuomintang government with its emphasis on free enterprise, democratisation and continuing pragmatic contact with the mainland, coupled with outspoken condemnation of its Communist rulers, serves an important longer-term purpose, he says.

It makes of Taiwan a conspicuous model for reform which the mainland cannot ignore and an embarrassing thorn in the flesh of the Communist government.

China business: Page 8

CHINA — THE BUSINESS VIEW

FT correspondents assess financial prospects in the wake of the country's domestic turmoil and conclude that recovery may be slow

The world demands a high price for a return to normality

By Robin Pauley, Asia Editor

THE CHINESE authorities have now been furiously at work for three weeks to rewrite recent history and try to explain away the brutal massacre of protesting students in Peking. They have used every aspect of the media to bombard the 1.1bn Chinese citizens with disinformation and hope that a new, tough line coupled with sustained propaganda will subdue the people and allow a return to normal.

The leadership has made quite clear that it wants trade and tourism, the sources of vital foreign exchange, to continue as before. But here they may have miscalculated. Previous abuses of human rights in China and intolerable behaviour in Tibet have failed to arouse much more than an angry growl abroad.

But this time, governments around the world have been deeply shocked by the Peking Government's violence and angered at having believed so fervently that China was changing, becoming more tolerant and liberal. China may yet have to pay a price where it can least afford it: in its foreign exchange coffers and in its development.

It will be some time before it is clear whether China's new hard-line intolerance is temporary, or to be a more permanent feature; equally it will be some time before the impact of changes in investment and business intentions abroad is felt. But investigations around the world by Financial Times correspondents suggest that, while many businessmen are anxious to continue doing business with China or are waiting to see what happens next, the institutional support needed to facilitate such ventures — Government support, export credit guarantees and the like — may be harder to come by. The 12 European Community states agreed at the Madrid Summit to call for postponement of requests for export credit insurance.

This would be disastrous in the longer run for China's development ambitions. Trade has been vital in modernising and internationalising the economy. A lot is at stake. China's total foreign trade in 1988 was Renminbi 103bn, a rise of 25 per cent over the previous year. Exports were up 20 per cent and imports 28 per cent over the same period. China's top trading partners are Hong Kong, Japan, the European Community, the US and the Asean states with total trade of US$72bn. All of the states within those trading groups have been unreservedly critical of China's behaviour.

UNITED STATES

Big stake mostly holding steady

By Rivka Nachoma in New York and Nancy Dunne in Washington

BY 1988, just 10 years after the Communist Party had invited joint Chinese and foreign business ventures for the first time in three decades, at least 75 American companies were manufacturing products in China and more than 86 had each committed $1m or more to joint-ventures, according to the US-China Business Council, a Washington-based organisation that represents more than 500 US corporations doing business with China.

Mr Roger Sullivan, president of the council, said last week: "This government isn't going to last forever". By remaining in China, he indicated, investors could help build the morale of the country's pro-reform forces and begin preparing for the future. "Companies that have already invested a lot of time and money in China can't afford not to stay".

He did predict that many projects still in the discussion stage will be cancelled.

In 1986, US-China trade was at $8.1bn. by the time martial law was decreed early this month, that figure had grown to $13.5bn, making the US China's third largest trading partner, after Hong Kong and Japan.

Two thirds of the US companies doing business in China are on Fortune magazine's top 100 companies, ranging from the manufacturing of food processors to hotel chains.

US business has invested more then $4bn in China to date.

All but a few of the 200 Sino-US companies had to evacuate foreign staff from Peking because of the current turmoil in China.

General Foods, which makes various food products in joint ventures with Chinese partners in Tianjin, Guangzhou and Dongguan "is vigilant, but we're not pulling out," said the company's Asia chief, Mr George Kenneth Liu.

AT&T agreed to a joint venture with the Chinese to make advanced transmission systems in Shanghai days before the Peking clampdown. Mr George F. Tauber, AT&T Asian marketing operations director, said: "We are not in a panic; we still regard China as a market for the future".

Windmere Corporation's president and chief executive officer, Mr David M. Friedson, said at close of business on June 7 that the company's factory in Boan county, Guangdong province, was still in operation, but that production was down as much as 30 per cent because of workers' fears and anxieties about political conditions there.

Boeing, the aircraft maker, intends "to maintain contacts in manufacturing and selling". It has 18 contracts with local Chinese companies in various provinces to produce parts for Boeing, as well as orders for 737s and 757s from CAAC, China's national airline.

A spokesman for Boeing Helicopters, which last January announced a $100m order from the Chinese People's Liberation Army, said it was "business as usual". The order has not been made subject to the sanctions suspending military sales to China set by President George Bush on June 5.

BRITAIN

Reluctance to quit tempered by caution

By John Ridding

BRITISH companies with joint ventures or long-standing trade relations with China appear not to have changed their strategies following the recent demonstrations and crackdown, but there is increased caution about new investment plans.

Companies operating in China, particularly in Peking, suffered dislocation after the clampdown as expatriate staff were withdrawn and communications disrupted.

However, according to Mr John Beyer, deputy director of the Sino-British Trade Council, about half of those who left have now returned, and most of the rest are planning to go back in the next few weeks.

Mr Percy Timberlake, consultant to the 48 Group, which advises corporate clients on business in China, said that the "problem category" concerned companies which had been considering investing in China but had little previous experience.

He knew of such companies which had decided not to go ahead with investment plans because of the recent events. Projects dependent on soft loans from foreign governments may also be jeopardised, following a reduction in loans and aid.

One decision now on ice is the plan by Saatchi & Saatchi, the world's largest advertising company, to set up an office in Canton and a representative office in Peking.

However, Mr Timberlake believed that, for every postponed project, there was an equal number going ahead. He said companies with experience of trading with China were eager to re-start business so that competitors did not take advantage of the hiatus. He knew of no instances of disinvestment by UK companies.

A common sentiment of UK companies was the desire to keep hard-won business. Mr Godfrey Harker, group finance director of Ricardo, consulting engineers, said: "It has taken a long time to get the business we have and we don't want to give it up."

Mr John Carr, regional sales manager at British United Shoe Machinery, said: "We have been trading with China for over 17 years and we can't suddenly stop."

For many, the main incentive remains the potential of the Chinese market. Mr Fred Smith, chief executive of APV, supplier of equipment to the food industry, said: "We have been trading with China for 30 years and, although it only represents about £30m of our £807m sales, in time it may become our principal market."

WEST GERMANY

Shaken companies work to fulfil contracts

By Andrew Fisher in Frankfurt

THE UGLY events in China have shaken and shocked the West German business community, but companies with orders and investments under way are working stoically to fulfil them.

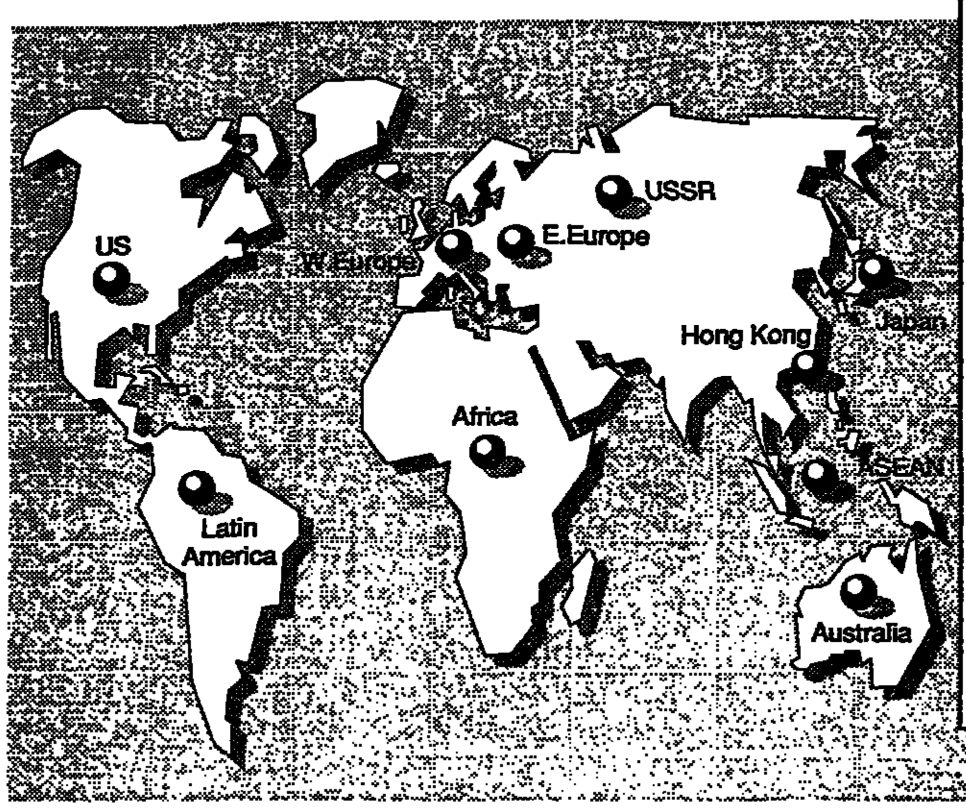
Beyond this, the climate for future investments has clearly worsened. "Trade relations will settle back more or less to normal," says Mr Heinrich Weiss, head of German industry's China Committee. "But the investment climate has been disturbed for a long time to come."

One company which would like business to remain as usual is AEG, leading a consortium to equip a new metro system in Shanghai. But a big question mark has been put over financing, since the Bonn Government has halted, at least for the time being, soft loans to China.

Germany is China's largest trading partner in Europe, while China is the biggest Asian purchaser of German goods after Japan. Last year, German imports from China rose by 26 per cent to DM4.3bn, while exports slipped by 2 per cent to DM4.9bn.

Companies and industry organisations report that, where firm contracts are signed, the Chinese expect business as usual.

World trade with China since Richard Nixon opened the door in 1972



	1972 Exports US$ m	1972 Imports US$ m	1988 Exports US$ m	1988 Imports US$ m
US	32.4	69.9	3,399	6,633
Japan	453.7	680.6	8,046	11,062
France	94.8	65.1	514.9	987
W.Germany	97.0	183.1	1,491	3,450
Italy	76.2	84.0	746	1,552
UK	80.9	85.2	659.2	898
Spain	13.3	0.2	134.3	319
Australia	53.0	50.3	361.5	1,113
Latin America	10.1	164.9	250.4	1,942.2
Africa	233.0	143.1	1,712.8	254.9
Hong Kong	229.1	59.8	18,239	12,005
ASEAN	230.4	187.1	2,891	2,925.2
	1978		1988	
USSR	230.0	207.0	1,476	1,802
E.Europe	686.0	685.0	1,272.4	1,500

Source: IMF

SWITZERLAND

Business as usual for lift maker

By William Dullforce in Geneva

SCHINDLER, the Swiss lift manufacturer and the first foreign company to enter a joint venture in China in 1980, plans to go ahead with the investment in new plant at Sochu decided on last December.

"We have no intention of changing our business policy but implementation may be another matter," Mr Uli Sigg, the executive board member responsible for China, said.

Schindler invested 25 per cent of the original $16m capital of China-Schindler Elevator Company, which operates plants in Peking and Shanghai. Last year the Swiss concern agreed to finance 40 per cent of an $8m investment in Sochu-Schindler Elevator, which is modernising and expanding a factory in Sochu. The three plants command about 20 per cent of the Chinese market.

Nestlé, the big Swiss foods group, is involved in two joint ventures, one for milk products in Mongolia and one for instant coffee in the South. Neither plant is yet operational but Mr Francois-Xavier Perroud, Nestle's spokesman, said, "We are going ahead with our investments with no illusions."

Ciba-Geigy, the chemicals group, said it did not yet know whether it would go ahead with a small investment in a joint venture with the Chinese state pharmaceutical organisation. Erection of the factory near Peking was the responsibility of the Chinese partner and Ciba-Geigy had not yet made its investment.

CANADA

Alcan to go ahead with joint ventures

By David Owen in Toronto

ALCAN Aluminium is proceeding with plans to build window manufacturing and remelt units at a C$20m 5,000 tonnes per year extrusion plant in Shenzen SEZ.

The plant, which has been running for a year, is owned 55 per cent by the Chinese and 45 per cent by Alcan Nikkei China, a joint venture between Alcan and Nippon Light Metals (NLM) of Japan. Alcan also owns 50 per cent of NLM.

Alcan is "continuing to communicate" on another unspecified joint venture project in its early stages.

Babcock & Wilcox Canada pulled people out from three operations: a joint venture boiler-making company in Peking's western suburbs, and two power plant construction projects near Peking and Shanghai respectively.

The boiler plant staff returned after a week. Staff at the power plants, being built in consortium with General Electric and Ansaldo of Italy, still have not returned.

Cambrian Engineering Group has delayed sending people to China for technical discussions related to two contracts recently won to supply equipment and engineering services to two cooking oil refineries in Jiangsu province.

Dr Salomon Daniel, president, says the value of the contracts to Cambrian is about C$2.25m. He says the company can delay the placement of sub-contracts for two weeks.

He says he has noticed no deterioration in business communications with Chinese officials. Like many others, he is looking for guidance to a Canadian Government statement expected early next week.

Klöckner Stadler Hurter (KSH), 100 per cent-owned by Klöckner of West Germany, recently won US$52m contract to supply construction goods and services for a 50,000 tonnes per year caprolactam plant in Yueyang, Hunan province.

The consortium partners are Chiyoda of Japan and Stamicarbon of Holland. Dr Piero Biagiotti, vice president of business development, says: "Officially we have been told that an engineering meeting scheduled for July has been postponed. We know the reason for that is because they are not ready.

"We have also received a note from the Chinese through a tortuous route to say that any delay caused by us would be interpreted as retaliation."

China is the biggest overseas market for Canadian potash. Canpotex, the producer-owned consortium that handles these sales, sold 1.25m tonnes to the Chinese in 1988, against 900,000 tonnes in 1987. A spokesman said: "After slight interruption at the beginning of June, shipments have continued virtually on schedule."

Private bank exposure is relatively insubstantial. Canadian Imperial Bank of Commerce, the second largest Canadian bank, has under C$100m in commercial loans outstanding. Royal Bank of Canada, the largest bank, is involved in project financing in the coal sector at Island Creek of China Coal, but has recently focused on short-term trade financing.

FRANCE

YVES SAINT LAURENT (above), head of the fashion and perfume group, is pulling out of China in protest at recent events, writes George Graham in Paris.

Mr Pierre Bergé, YSL's chairman, has resigned his position as special counsellor to the Chinese Government on cultural and textile industry questions, and is cutting off the group's economic links with the country.

YSL will therefore stop delivering its perfumes to the counter it recently opened, with an investment of FFr1m, in Peking's Friendship Stores. On the other hand, work at Daya Bay, the major nuclear plant under construction by France's Framatome, in conjunction with Electricité de France and Campenon-Bernard, is continuing and Jiang Xinxiong, head of the Chinese nuclear industry, said that Framatome is still discussing the possible construction of two new reactors at Qinshan.

Total French investments in China are estimated to amount to around FFr35bn, of which some FFr7bn are backed by government development loans and by official export credits.

NETHERLANDS

Traders try for business as usual

By Laura Raun in Amsterdam

GOOD DUTCH traders have never liked politics getting in the way of business and China is no exception. Dutch companies in China are trying to carry on with a business as usual attitude.

Philips, the Dutch electronics giant, has the greatest involvement in China through eight joint ventures and exports. Three joint ventures already are producing: a radio-cassette player factory in Peking, a laser optics plant in Shenzen; and a car radio factory in Huizhou.

Another five joint ventures are supposed to come on stream over the next two years. They cover integrated circuits, lighting, TV picture tubes, glass fibre and video cassette frames.

"Nothing is decided" about the future of these ventures, according to a Philips spokesman at the company's Eindhoven headquarters.

VMF-Stork, the Dutch engineering company, threw caution aside and boldly announced a Fl10m contract from China on May 24, at the height of the political unrest. The contract is for construction of a dairy and a milk product factory in Zheijian Province, both to be finished by the end of next year.

Heineken has invested "several million guilders" in a 12.5 per cent stake in the Shanghai Mila Brewery, which is also owned by Shanghai, Chia Tai of Thailand and Fraser & Neave.

HONG KONG

Business fearing a sanctions backlash

By Michael Murray in Hong Kong

INTERNATIONAL moves towards economic sanctions against China are being anxiously watched in the Hong Kong business community, where the close links between the local economy and the giant north of the border ensure that any adverse effects will eventually be felt in the colony itself.

Bans on arms sales have been welcomed, even though a related tightening up on the transfer of technology could affect commercial enterprises. There has been a less enthusiastic response to the prospect of a globally co-ordinated squeeze on new loans of a sort advocated by the European leaders at this week's Madrid summit, as this is likely to inhibit the much needed infrastructural development of China.

But the alarm bells start ringing at the mention of trade sanctions, which if introduced would have an immediate, adverse impact upon the economy of the Crown colony.

Attention is focused on the United States, where despite the opposition of the Bush administration there are moves afoot inside Congress to end China's most favoured nation status, under which its goods enjoy market access at the lowest tariff levels accorded to the trading partners of the US.

The effect of such a move upon Hong Kong would be two-fold. First, by hurting the competitiveness of China's own exports, with tariffs quadrupling in some sectors, it would depress throughput at Hong Kong's container port, which serves large areas of southern China.

Second, it would be detrimental to sales of goods manufactured in China in the many joint venture factories operated by Hong Kong businessmen.

In 1988, some 29.1 per cent of Hong Kong's entire trade was with China, with most of the growth coming from re-export trade, largely reflecting the extent to which raw materials and parts are transferred across the border for assembly, and are then assembled and shipped back through the territory on their journey to overseas markets.

Re-exports to China grew by 57.7 per cent to HK$94.9bn (£7.89bn), while re-exports of China origin grew by 56.1 per cent to HK$131.5bn. During the year, re-exports from China headed for the US grew by 55.8 per cent to HK$43.2bn.

The indirect effect of an increase in US tariffs, or other punitive action from the European Community or Japan which targeted Chinese-made products, would be to hit corporate profits for the many Hong Kong manufacturing companies which have moved some or all of their production across the border.

It has been estimated that between one and two million people in Guangdong province work in Hong Kong-run factories — a number greater than the total manufacturing workforce of only 850,000 in Hong Kong itself.

"We view even the remote threat of trade sanctions as very serious indeed," said a spokesman for the Hongkong and Shanghai Bank, who argued that any such sanctions would deal a severe blow to Hong Kong's hopes of remaining a flourishing economy.

This view was echoed by Mr Martin Barrow, chairman of Jardine Matheson China, who said that no-one would gain by trade sanctions, which would make the situation much more difficult for Hong Kong.

The Hong Kong government has itself been wary of openly citing economic self-interest in opposing sanctions against China, concentrating its arguments upon the ineffectiveness of sanctions in influencing the Peking regime. But officials are clearly concerned about the knock-on effects of such moves upon Hong Kong, where confidence is already battered.

And an even greater fear lurks: that by confronting China with sanctions, the outside world will drive it into the very isolation and slamming of the open door that officials in Peking have so far said they are going to avoid — in spite of the atmosphere of political repression.

THE AID AND EXPORT CREDIT INSTITUTIONS

Harder line in the West begins to emerge

By Robin Pauley and Stephanie Gray

MORE than company decisions will govern the trade and commercial impact on China after the suppression of student protests. The attitude of institutions, particularly those dealing with export and trade credit guarantees, will be crucial; there are signs they may be tougher than expected.

The 12 European Community leaders at the Madrid summit this week called for the examination of any new Chinese requests for trade credit guarantees to be postponed.

Any general trade measures against Peking would involve the European Commission, which is the Community's commercial negotiator, while the issue of loans, export credits, and arms sales to China is for member states to decide.

The most important projects, concluded in the framework of the 1985 EC-China economic co-operation accord, involve development of the dairy sector, general rural development, biotechnology applications in agriculture and medicine, and nearly 50 industrial modernisation schemes, science, technology and energy.

Contrary to exporters' expectations, the West German Government has already announced that no more Hermes export credit guarantees will be available for China. Also, Bonn has decided not to disburse, for the time being, the 1989 development aid of nearly DM500m (£163m).

The Canadian Export Development Corporation said: "We are not saying it is business as usual, but it is not true to say that we have completely cut the [credit] pipeline." Requests for fresh credit, however, are understood to be very scarce. EDC has C$250m (£136m) to C$500m in loans outstanding in China.

Canadian aid to China totalled C$98.4m in 1987-88, making it China's third largest donor.

Mr Roland Dumas, French foreign minister, has said that, as soon as there was a common European position, which emerged in Madrid, France would act. Government officials said French exporters had been unable to pursue any discussions on future contracts because there was no-one for them to talk to in Peking.

CoCom, the Western co-ordinating committee on multilateral export controls, has moved in recent months to relax controls on China, moving certain restricted products onto its Administrative Exceptions list, which allows a country to grant an export licence in specific cases. This relaxation is likely to be halted or even reversed now that European leaders have agreed to interrupt military co-operation and impose an arms trade embargo.

In Britain, the Export Credits Guarantee Department is continuing to look at requests for cover on projects on a case-by-case basis. Its biggest project by far is a £420m facility covering the Daya Bay power station contract.

Officials at the UK Overseas Development Administration said that £300m credit signed by Mr Christopher Patten, Overseas Development Minister, in Peking last September, was now "under review".

In Washington, the World Bank has put two loan proposals aside while it assesses the situation. Mr Barber Conable, the bank's president, said the executive board was considering action on some pending loans to China. The bank has about $600m to $700m in new loans to China in the pipeline.

Since 1981, when the World Bank set up in Peking, the International Development Association (soft-loan window) has approved $3.046bn in loans, of which $1.5bn is undisbursed. The bank itself has approved $4.7bn in regular loans at commercial rates, of which $2.9bn is undisbursed.

The US Eximbank's exposure at the end of the 1988 fiscal year was $276.6m. Four preliminary commitments for funds have been approved — for an electric power generator loan for General Electric; telecommunication network expansion by AT&T; corn processing by Anderson International; tyre-making by Firestone.

If these US companies win those contracts, the deals will go ahead unless President GeorgeBush officially denies Eximbank credits. Under the law, a preliminary commitment cannot be turned down, except for economic reasons, unless the president intervenes. There are many applications on hand but, in any event, the Eximbank does not have the funds to proceed in the near future.

Italy's commercial relations with China have begun to boom over the last couple of years to the extent that the value of bilateral trade grew 30.6pc last year to about L3,560bn (£1.6bn). The result was a small surplus in China's favour of L160bn — the first such in the last four years. Italian companies are believed to have contracts worth more than L2,000bn in China, while the Italian government has steadily increased its aid package this decade from $110m at 1981-83 to $260m, including $40m of grants, for the 1987-89 programme.

Italy's credits insurance agency, SACE, has only modest exposure, worth L179bn, and until now China has been classified in the lowest category of country risk, which also includes the US and the rest of Europe. However, the recent upheavals have been followed by a growing volume of requests for export cover and the SACE is considering whether to impose tighter terms on Italo-Chinese trade.

AMERICAN NEWS

Rostenkowski rules out capital gains tax cut

By Peter Riddell, US Editor, in Washington

A REDUCTION in the US capital gains tax in the coming year has been ruled out by Mr Dan Rostenkowski, the Democratic chairman of the tax-writing House ways and means committee.

The Bush administration has pressed for a cut, partly because the initial boost to tax receipts would account for most of the \$5.3bn (£3.4bn) extra revenue needed to meet the budget deficit reduction target for the 1990 fiscal year. This has been strongly opposed by most leading Democrats for mainly favouring the already well-off.

But, following discussions with President George Bush, an old friend, Mr Rostenkowski decided to float a number of possible compromises, including a one-year reduction in the tax. But he said yesterday that resistance from the Democratic majority on his committee to any cut was more vigorous than he had expected, and capital gains had been dropped from his agenda.

Consequently, Mr Rostenkowski will now draft a bill consisting of what is known in Washington as "loophole-closers, cats and dogs" – that is, minor changes which are not seen as violating Mr Bush's "no new taxes" campaign pledge.

Dan Rostenkowski: possible compromises

These include ending tax relief to commercial banks on some of their lending to Third World countries; ending a loophole in the tax law encouraging the use of employee stock ownership plans in corporate takeovers; reducing the attractions of junk bond issues by ending tax benefits for securities that postpone cash interest payments until the bonds mature; putting off an existing provision for automatically reducing airport and airway taxes; and extending a 3 per cent tax on long-distance phone calls.

All these proposals are concerned with meeting fiscal 1990 budget targets. But, quite separately, informal discussions are under way between the administration and the Senate and House budget committees on the much larger deficit reduction package needed to meet the fiscal 1991 target.

At present, this is only at the stage of possible options but these apparently include a big tax increase as well as cuts in spending programmes. This would involve a reversal of Mr Bush's campaign pledge and the possibility is being viewed with alarm by conservative Republicans.

Record investment boosts US foreign debt to \$533bn

By Lionel Barber in Washington

RECORD inflows of direct foreign investment in the US helped push up America's foreign debt burden to \$532.5bn (£341bn) in 1988, the Commerce Department reported yesterday.

Both the UK and Japan showed large increases in their direct investment position, with the British total jumping from \$79.67bn in 1987 to \$101.91bn last year. The Japanese, buying manufacturing, real estate and wholesale trade, increased their investment from \$35.15bn to \$53.35bn over the same period.

The Commerce Department said the new foreign debt total was \$154.2bn higher than the \$378.3bn owed in 1987 by the US.

The US debt figure cannot be compared with the commercial and government debt owed by countries such as Mexico and Brazil, since it reflects the mismatch between US-owned assets abroad and foreign assets held in the US.

The US was classed as a debtor nation in 1985, the first time since 1914. The flows of foreign investment into the US – and America's dependency on foreign finance to service its budget deficit – have prompted calls for curbs on foreign investment, but the Bush administration argues that the investment flows have helped provide the capital for rejuvenating ageing US industries.

US direct investment abroad grew 6.1 per cent in 1988. Americans invested \$152.33bn in Europe (\$146.24bn). In Canada, the figure rose to \$61.24bn (\$58.38bn), while US investment in Japan increased marginally to \$16.87bn (\$14.67bn).

The Commerce Department said the big increase in foreign direct investment in the US reflected the large number and size of foreign acquisitions of US companies in 1988, as well as the improved performance of US affiliates of foreign parents. It also showed heavy foreign purchases of US bonds, and placement of dollars in the US by foreign monetary authorities - a sign of confidence in the US economy.

Brazilian wages measures likely to encourage inflation

By John Barham in São Paulo

BRAZIL lurched further towards hyperinflation with the approval on Wednesday of a series of government and congressional measures that increase the federal deficit and shore up wages. The decisions may mean that Brazil once again falls behind with debt service payments in the third quarter.

The new wages, monetary and fiscal legislation were rushed through Congress on the eve of its winter break, overturning a presidential veto. The lowest paid will now receive a 3 per cent real monthly increase, to be paid every two months. Congress also set the minimum wage at the equivalent of \$75 a month.

The Sarney government had earlier vetoed these bills as inflationary and on the grounds they increase the public sector deficit since federal social security benefits are tied to the minimum wage. The Finance Ministry believes the added social security cost will add as much as two percentage points to the deficit which could reach 8 per cent of GDP this year.

The inflation rate has already made a mockery of the 1989 budget, designed to withstand only single-digit inflation. Congress approved a \$963m appropriation to pay civil servants' wages in the third quarter.

The government has also received approval to expand the money supply by 60 per cent during the July/September period, injecting \$10.66bn more, at current exchange rates, into the economy.

Congress also repealed a ban on net bond sales, allowing Brasilia to sell \$4.8bn worth of bonds to the public in the three months to September. The government promises it will not make use of the authorisation. The debt market, which already finances the government on a 24-hour basis only, is increasingly fearful of the quality of the federal paper.

The country is resigned to June inflation of 25 per cent bringing the rate since January to 130 per cent. This inflationary trend means Brazil almost certainly cannot meet the targets agreed with the International Monetary Fund. Without IMF blessing, private and multinational lenders will not release fresh loans of \$4bn (£2.6bn) due this year. Brazil must make principal and interest payments of \$3bn in September.

The Finance Minister, Mr Mailson da Nobrega, has made repeated warnings this week that Brazil will do all in its power to protect its official reserves.

Ms Rosa Dalcin, a ministry official, said: "An exchange crisis, when reserves were depleted, was one of the paths to hyperinflation in other countries. If we have to, we will delay payments – that is the spirit of his statement." In March, Brazil's reserves stood at \$5.3bn.

Baker rejects China sanctions

By Peter Riddell

MR James Baker, the US Secretary of State, firmly rejected a package of further sanctions against China approved in the House of Representatives yesterday by 418-0.

Speaking at a White House news conference, Mr Baker strongly defended the administration's cautious approach to the Chinese crackdown in face of increasing criticism from Congress that President George Bush should speak out more.

Mr Baker said human rights, while an important principle in US foreign policy, were not and could not be the only principle involved. He argued that the right response was a measured one which "clearly expresses our outrage, but does not resort to an overly emotional response which involves inflammatory rhetoric".

Appealing to Congress on the basis of Mr Bush's special experience as US envoy in Peking in 1974-75, Mr Baker said that while the administration recognised "the desire of elected officials to speak and vote on this issue, we believe that the leadership in this instance should come from the president as commander in chief and as one who is thoroughly and completely versed in the affairs of China."

James Baker: defended administration approach

The proposals, already approved by the House Foreign Affairs Committee, cover suspension of new trade and development programmes including new US government guarantees of private investment, bans on the sale of police-related weapons and limits on the transfer of high-technology (including space satellites) and nuclear materials or components.

The package also includes a series of statements calling for US policy towards China to be specifically linked to the Peking regime's actions in Tibet, the expression of "strong reservations" to the Chinese and British governments about the credibility of Peking guarantees to Hong Kong, the offer of asylum in the US to any Chinese national "under threat of severe penalty" as well as statements of strong support for Mr Bush's approach so far.

Mr Baker said the administration could not support the amendment as a whole, though he declined to say whether this would result in a veto.

Defence budget vote defeat for Cheney

By Lionel Barber

THE US House of Representatives armed services committee has given a reprieve to the V-22 Osprey tilt-rotor aircraft for the Marine Corps and the Navy's F-14 jet fighter. The Pentagon threatened to axe both in next year's defence budget.

The vote is a boost for the Long Island-based Grumman Corporation, which has lobbied fiercely to protect production of the F-14, but it is not final. The bill must still go to the floor of the House, where further amendments may be offered, before a final reconciliation of the House and Senate bills in conference.

This year's defence budget deliberations reveal that lawmakers are still "micro-managing" the Pentagon's proposals, cutting some projects and adding others in order to bring jobs to their home states. But the degree of interference has declined – a reflection of tighter budget constraints.

On Wednesday, Mr Les Aspin, committee chairman, proposed leaving intact the Pentagon's proposal to spend \$78.8bn (£51bn) on weapons systems in fiscal 1990, which starts on October 1 this year. The vote was tied at 26-26, which under House rules defeated Mr Aspin's motion.

The other emerging feature is growing opposition to the B-2 Stealth bomber manufactured by Northrop. Current estimates show that the radar-evading bombers may cost more than \$600m each. Mr Richard Cheney, Defence Secretary, is sticking to the project, but lawmakers want to see a successful test flight soon. If the US Air Force buys its planned 132 B-2 bombers, it would cost \$70bn - almost a quarter of this year's total defence budget.

Bush names Sikes to head FCC

By Roderick Oram in New York

PRESIDENT George Bush has nominated Mr Alfred Sikes, a supporter of wide-ranging deregulation of telecommunications, to head the Federal Communications Commission, the industry's regulatory agency.

As head for the past three years of the National Telecommunications and Information Administration, a unit of the Commerce Department, he was involved with reviewing policy. As head of the FCC he will be a leading policy-maker.

He has advocated changing laws, to allow, for example, telephone companies to provide some cable television services and television networks to own cable systems, and the abolition of exclusive cable franchises. He is expected to moderate his views at the FCC.

Well connected on Capitol Hill, Mr Sikes is likely to win swift confirmation and to build a more productive relationship with Congress than his predecessor, Mr Dennis Patrick.

Cuba sacks minister after drug scandal

CUBA'S powerful interior minister, General José Abrantes, has been dismissed, the first high-level government casualty in the country's biggest drug trafficking scandal, it was announced yesterday, Reuter reports from Havana.

The official newspaper Granma said in a front-page announcement signed by President Fidel Castro that the Communist Party politburo decided to name General Abelardo Colome Ibarra as Interior Minister, a job diplomats say ranks third in Cuba's power structure.

Gen Abrantes, a well-known figure and long-time associate of Gen Castro and his younger brother Raúl, had held the job since December 1985.

He was made to pay for what Granma called "the great deficiency" at the ministry's highest level "in relation to the conduct of a group of officials who during two and a half years carried out with impunity drug trafficking operations".

His replacement is an experienced army general and politburo member, who holds the honorific title of Hero of the Revolution and was one of three vice-ministers of the Revolutionary Armed Forces. That made him one of Defence Minister Raúl Castro's deputies.

In the drug and corruption scandal which broke on June 14, General Arnaldo Ochoa Sanchez has been accused of being the ringleader of military and interior ministry officials who collaborated with Colombia's Medellín drug cartel.

They allegedly helped to smuggle six tonnes of cocaine into the US between 1987 and this year through military air bases in Cuba, and accepted \$3.4m in bribes.

A military court of honour on Monday recommended that Gen Ochoa be court-martialed for high treason. All 47 members said he was a traitor and deserved death by firing squad.

The decision to remove Gen Abrantes, a man in his early 50s, was taken irrespective of "the services he rendered to the revolution and the trust he had and has from the direction of our party", it added.

WORLD TRADE NEWS

Japan asks Gatt for rules of origin guidelines

By William Dullforce in Geneva

JAPAN has asked the General Agreement on Tariffs and Trade to establish guidelines for determining the rules of origin of traded goods.

Japanese officials say their move is directly related to the problems their car, semiconductor and other electronic manufacturers are having with the European Community. The Japanese are especially concerned about the growing powers of the European Commission under a procedure which turns its ruling on origins into law, unless it is opposed by a majority of EC governments within three months.

In the absence of agreed international rules, this procedure can lead to arbitrary decisions bound to restrict investment as well as trade, the Japanese argue. One recent instance was the Commission's adoption of a new rule of origin for photo-copiers, which allowed it to extend anti-dumping duties to Japanese products assembled in the US on the grounds that the assembly of basic parts did not confer US origin.

Earlier instances have concerned Nissan cars built in the UK and video-cassette recorders assembled within the EC at Japanese-owned plants, where the "local content" level has become the basis for contention.

Last month, as part of the drive by Mr Martin Bangemann, EC Industry Commissioner, to open the EC car market, the Commission decided not to create EC local content rules for Japanese cars, but the Japanese fear that French, Italian and Spanish car-makers will succeed in having this decision reversed.

Tokyo is not alone in its concern. Mrs Carla Hills, US Trade Representative, warned the EC in April against manipulating rules of origin to exclude imports of US electronic machinery and semiconductors.

Now Japan has put the issue on the agenda of Gatt's trade-liberalising Uruguay Round. This week, it formally asked the negotiating group handling non-tariff barriers to trade to work out a multilateral framework governing rules of origin.

The EC wants disputes over the rules to be settled in the Brussels-based Customs Co-operation Council. The Japanese want a new international framework embodying the following elements:

- Rules of origin should be clear and simple.
- The principle of non-discriminatory treatment should be applied.
- Procedures by which a government decides on rules should be transparent.
- The rules should not impair or nullify countries' existing rights and benefits under Gatt.
- They should not be used as a means to distort trade and investment.

Japanese officials say they will submit a more detailed proposal after the summer

Hyundai set to fight EC duties

By William Dawkins in Brussels

HYUNDAI Merchant Marine, the South Korean shipping line, has confirmed its promise to fight European Commission anti-dumping duties on its freight rates between the EC and Australia.

The company has lodged an appeal at the European Court of Justice against the duties, equivalent to 37.4 per cent of shipping costs, imposed last January. These are the first anti-dumping duties ever levied by Brussels on a service industry and have forced Hyundai to quit the EC-Australia route.

This has provoked complaints from European shippers, the freight company customers of shipping lines. European shipping lines had complained that Hyundai was unfairly undercutting their rates

However, Hyundai claims that they failed to prove it had any non-commercial advantages, that its ships did not ply exactly the same route as the European lines and that the Commission's investigation was biased.

European maize producers lobby against US gluten import rise

By Tim Dickson in Brussels

EUROPEAN maize producers, led by the French, are creating a fresh lobby to persuade the European Commission to act against the rising level of corn gluten imports from the US.

New efforts are being made to convince Brussels that there is a prima facie case for an official anti-dumping investigation arising from long standing subsidies paid to US maize farmers and ethanol producers under the US Feed Grains programmes and like schemes. Failing this, moves are being made to mobilise the support of the southern EC member states particularly for concessions in the current multilateral trade negotiations.

The sense of grievance on the part of the European Confederation of Maize Producers has been exacerbated by the outcome of the Mid-Term Review of the Uruguay Round in Geneva in April. The resulting freeze on new farm subsidies and the vague long-term commitment to reduce them have left the EC's maize producers gloomy about short-term prospects for easing what they see as the unfair pressures exerted on them by the US regime.

The political and technical problems they face are considerable. In the negotiating lull which has set in since Geneva, Brussels is not anxious to ruffle feathers in Washington with a new complaint at this stage, while experts in the external relations department of the Commission are dubious about the legal merits of the complaint (though they have yet officially to respond to it).

Washington, meanwhile, egged on by the vociferous farm lobby, is strongly opposed to concessions on this issue, given that one of the US's only duty-free openings to the European Community's agricultural markets is at stake.

Maize gluten (corn gluten as the Americans call it) is the highly nutritious residue left after starch liquid gluten and seed have been removed from maize kernels in the processes used to produce starch and ethanol. It is free of EC import duty and has become an increasingly important substitute for cereals in compound animal feeds produced in the EC – imports have jumped from 1.7m tonnes in 1978-79 to 4.5m tonnes in 1988-89.

According to the EC complainants, US production and trade in maize gluten have been spurred by subsidies given to maize producers, and capital loans and grants given to builders of plants which turn maize into ethanol in a process which leaves maize gluten as a residue.

US officials dismiss the EC arguments and stress that the subsidies are not direct but "downstream" – perceived to be the key weakness in any anti-dumping action. "You have to show much more immediate subsidies to prove the case," one expert explained.

More hope is attached to the possibility that the current GATT negotiations may lead to some sort of "rebalancing" – reduced export subsidies for EC cereals in return for some new EC import protection for soyabeans and cereal substitues like corn gluten feed. Attempts by the EC to negotiate import limits and duties have failed in the past, but Brussels is well aware that the rising market share of corn gluten increases cereals substitution, and involves extra costs in subsidising EC exports of maize and cereals.

Danes near clash over bridge deal

By William Dawkins

DENMARK and the European Commission are heading for a row over allegations of illicit unfairness in the award of a Dkr3bn (£250m) contract for a giant road and rail bridge.

Brussels will decide within the next week or so whether to seek a European Court of Justice injunction to prevent the start of work on the 6.6km bridge, which will stretch from Sjaelland to the Jutland peninsula. This could force the Danish Government to scrap the contract and call for tenders again.

The Commission was asked to take action by Bouygues, the French construction company, leading a consortium with Trafalgar House of the UK, which lost the contract to a six-company grouping. It claims that the contract contravenes EC rules on free movement of goods, services and workers by obliging the use of largely Danish labour, equipment, and materials.

This is the first time a big construction company has tried to use EC law to challenge the award of such a substantial international contract.

US computer makers form 'coalition'

By Louise Kehoe in San Francisco

A GROUP of major US computer manufacturers has formed an industry coalition to develop public policy recommendations on the issues of trade and competitiveness. The group, led by International Business Machines, is expected to wield considerable influence in Washington.

Members of the Computer Systems Policy Project, as the group is called, include Apple Computer, Compaq Computer, Cray Research, Hewlett-Packard, IBM, NCR, Sun Microsystems, Tandem and Unisys.

The industry group could have an important influence in issues relating to US-Japanese high technology trade. The group will also explore ways in which individual company commitments or collective company actions could help to create a long-term strategy for the competitiveness of US computer systems makers.

Seoul close to dropping right to curb imports

By William Dullforce

SOUTH KOREA is teetering on the verge of abandoning its right as a developing country, under the General Agreement on Tariffs and Trade, to impose import restrictions for balance-of-payment reasons.

This would be another important step in Seoul's current liberalisation of its economy and trade, which has been strongly encouraged by the US and other big trading countries.

But the Koreans are asking a steep price for renouncing their rights. In three days of consultations here with other Gatt governments, they have been holding out for a grace period, of up to 10 years, during which they would phase out restrictions and also be guaranteed exemption from any new trade challenges under Gatt provisions, as well as from any unilateral trade action.

Such a concession would effectively protect Korea, for instance, against action by the US under the controversial Section 301 of its new Trade Act.

So far, the US, the European Community and other countries have refused a grace period, unless it were shorter than 10 years and linked with a precise timetable for the phasing-out.

Gatt contains an escape clause which provides legal cover for a country experiencing balance-of-payment difficulties to impose restrictions, such as import quotas and licences, which would not normally be allowed. In return, the country's trade policy is subjected every two or three years to examination by Gatt and the International Monetary Fund.

Mr Sang Ock Lee, head of the Korean delegation to Gatt, indicated at the start of the latest scrutiny, that his country, which has accumulated current account surpluses since 1986, would be willing to unwind its remaining import restrictions.

Pragmatism binds Malawi to its big neighbour

Mike Hall assesses South African influence on the commerce of Dr Banda's republic

A GLANCE along the shelves of any PTC Kwikasve, the main supermarket chain in Malawi, reveals that it is not a country ashamed of its commercial links with white-ruled South Africa. From wine to skin-lightening cream, a substantial array of the republic's products greets the shopper.

This is no surprise – not only is Malawi the only country in Africa to host a fully-fledged South African embassy, but the South African food giant, Score, has a minority shareholding in the People's Trading Centre which owns Kwikasve.

Despite its active membership of the Southern Africa Development Co-ordination Conference (SADCC), which aims to reduce member states' dependence on South Africa, Malawi's links with the regional power are strong.

This month there was a huge South African stand at Malawi's second international trade fair, a four-day visit from Mr D.W. Steyn, Trade Minister, and a week-long visit, the first of its kind to any African country, by a group of 94 black South African business people looking to enhance links.

Soon after independence in 1964, the president, Dr H. Kamuzu Banda, who worked in the mines himself as a boy in the 1920s, broke with the fledgling Organisation of African Unity by advocating a policy of "contact and dialogue" with Pretoria.

In 1967, a trade agreement, intended to provide greater market access for Malawian exports, was signed with South Africa.

Relations between the two countries remain close, although Malawi's membership of SADCC illustrates the government's view that links with its neighbours are at least as important as ties with Pretoria.

South Africa is Malawi's largest source of imports, accounting for 35 per cent of the total in 1987, according to Malawi government figures. Businessmen say it could now be as high as 50 per cent in that imports have been further liberalised with structural adjustment.

"After the crisis in 1987, no one had spare parts and most firms' stocks were gone," says a local business adviser. "With liberalisation, speed of delivery was critical – only South Africa could provide that."

Fuel, fertiliser, chemicals and machinery make up the bulk of South African imports, which in 1987 totalled Kwacha 226m (\$102m). Exports from Malawi are mainly tea, tobacco and other primary commodities, and amounted to only Kwacha 65m (\$29m), revealing a huge trade imbalance.

Wheat flour is an increasing Malawian import. South Africa's subsidies to its milling industry mean that it is cheaper for Malawian business to import than to grow and mill wheat at home. Plans to encourage wheat in Malawi have been shelved as a result.

The trade imbalance is believed to be the reason why Malawi has been re-negotiating its trade agreement with South Africa. Negotiations started almost three years ago, according to Malawian officials. South African sources say they are close to signing.

Malawi is almost totally dependent on South African transport routes. Over 80 per cent of trade goes via road and rail to and from the port of Durban, more than 3,500 kms away.

Malawi also receives South African aid. In 1987, when arrears on import payments built up, South Africa quietly helped out with a Rand 50m (\$17.6m) revolving credit facility, which was increased to Rand 80m early last year, according to South African sources. The conditions, if any, are not clear.

The amount and terms of Malawi's debt to South Africa are also not clear, although when President P.W Botha visited Malawi in September last, he announced that repayments had been rescheduled.

In 1987 South Africa's export credit guarantee organisation extended its payment period from three to nine months – a facility almost certainly underwritten by Pretoria.

Links with Pretoria remain a potential source of controversy, but Malawian government officials and traders take a pragmatic view. "It makes economic sense," says a local businessman. "South Africa is close – it's quicker, cheaper, and usually more efficient."

Railway union votes to escalate industrial action

Thatcher rules out early rail sell-off to halt strike

By Fiona Thompson and Philip Rawstorne

MRS Margaret Thatcher, the Prime Minister, yesterday ruled out the countering of strikes by the National Union of Railwaymen with early privatisation of British Rail, as the union's annual conference voted to escalate its industrial action.

Although she condemned of the strikes as "utterly deplorable," the Prime Minister said the Government was not yet ready to bring forward proposals for the privatisation of BR, which would require careful preparation.

Her remarks in the House of Commons came as the NUR's conference in Newcastle-upon-Tyne unanimoulsy backed a call from Mr Jimmy Knapp, general secretary, for a further 24-hour national rail and London Underground strike on July 12.

It also authorised Mr Knapp to call strikes on successive Wednesdays, or any other days the union's executive chose. The union announced last week that it would be striking next Wednesday, July 5.

Mr Knapp urged delegates to give the executive the authority to resist BR's 7 per cent pay award and its proposed abolition of national collective bargaining and also to resist pay and changes in working practices at London Underground.

BR said last night it was disappointed that the NUR was continuing to threaten industrial action, and said the only way forward was through arbitration at next Wednesday's meeting at the Railway Staffs National Tribunal.

But the NUR conference voted to send only an observer to the meeting. Mr Knapp said the tribunal had no power to arbitrate on the issue of the future of pay bargaining in the industry and so could not solve the whole dispute.

Mr Knapp said he was seeking urgent talks with all the other unions involved to ensure maximum co-ordination and co-operation. The Aslef train drivers' union had also decided to send only an observer to the tribunal.

The Prime Minister's comments followed a one-hour Cabinet meeting yesterday at which Mr Paul Channon, Transport Secretary, and Mr Norman Fowler, Employment Secretary, reported on the strike.

Mr Fowler had roused speculation about the early privatisation of BR on Wednesday when he described the rail unions' action as "industrial blackmail" and said people would draw the conclusion that there was no case for a monopoly.

But Mr Channon has only just received the report of consultants on the BR privatisation options. He hopes to be able to announce his decision at the Conservative Party's annual conference, to be held this year at Blackpool in the autumn; but the preparation of detailed plans, and legislation to enact them, is unlikely to be completed before the next General Election.

Kinnock warns transport union on vote for unilateral policy

By Charles Leadbeater, Labour Editor

MR NEIL KINNOCK told the Transport and General Workers' Union yesterday that the Labour Party could not be elected without a policy of multilateral nuclear disarmament.

In his first major public speech on the issue since the publication of the party's policy review resulted in a rejection of unilateral nuclear disarmament in favour of multilateral disarmament, Mr Kinnock warned the union against adopting a position of isolated, powerless purity.

The speech, met by a standing ovation from only half the delegates and subject to heckling, was a relentless, uncompromising restatement of the party's policy, designed to assert his independence from the union.

Mr Kinnock told delegates to the union's biennial delegate conference in Brighton: "You voted to meet the change in the world by making no change."

Describing unilateralism as "yesterday's policy", he said multilateralism was so vital to the party's election chances that it would not be elected without it. "That is not new realism, just realism," he said.

The union's call for a timetable for disarmament within the lifetime of a government had no credibility, Mr Kinnock said.

He conspicuously avoided reference to the impassioned speech on Tuesday by Mr Ron Todd, the TGWU's general secretary, which is widely judged to have swung the vote narrowly in favour of unilateralism.

However, he warned that the union was in danger of seeing its influence within the Labour movement diminish as it became increasingly isolated from the growing body of unions and constituency parties supporting the policy review.

These votes mean that this October's Labour Party conference is almost certain to approve the revised policy.

The speech boosted the confidence of union multilateralists. They argued the conference would not have supported unilateralism had Mr Kinnock spoken before the debate.

They will press for a softer line from the union's delegation to the Labour Party conference, on the basis of a subsidiary motion passed on Tuesday which calls for multilateral negotiations alongside unilateral measures.

Plumber Phillips' watertight guide to economics

By Ralph Atkins, Economics Staff

CASCADES of red water and the whirr of an electric pump yesterday marked the restoration of a monument to 1950s economic thinking – and creative plumbing.

The London School of Economics unveiled a freshly scrubbed, reconstructed "Phillips Machine" – a bizarre collection of pipes, weights, pulleys, wires and valves intended to model the economy. In its heyday the 7ft-by-5ft machine was used as teaching tool and to represent Keynesian economics.

It was the brainchild of the late Professor Bill Phillips, an electrical engineer and crocodile hunter from New Zealand who turned economist and then plumber. The first version was built in a Croydon garage in the summer of 1949.

In the jargon, it was "a hydraulic representation of an open economy model with an explicit underlying dynamic structure." To a generation of students it was a noisy machine in the middle of a room that threatened to disrupt lectures by leaking over the floor.

Phillips Machines were used as a teaching device by Professor James Meade, the Nobel prize-winning economist. He would appoint students to be Governor of the Bank of England and Chancellor of the Exchequer to demonstrate principles of monetary and fiscal policy.

Two machines were constructed as mirror images and linked with pipes, representing the economies of the UK and US. With two more students acting as US Treasury Secretary and Chairman of the Federal Reserve, it would show how the destabilising policy of one country could be transmitted to another.

Yesterday Prof Meade described Prof Phillips, who died in 1975, as a "very, very remarkable man." He had invented a machine that was "an extraordinarily useful and ingenious teaching system."

The project of restoring the machine, which now stands in a glass case under bright lights, took two years. It was funded by the Suntory-Toyota International Centre for Economics and Related Disciplines at the LSE.

The role of the Phillips Machine has largely been overtaken by computers. Instead of specifying only nine variables, such as the tax rate or the level of government spending, economists now use models incorporating 500 or more equations.

The Phillips Machine also incorporates what today would be regarded as fundamental flaws. It fails to take proper account of inflation, and there is no link between interest rates and the exchange rate.

With its collection of valves representing financial institutions, however, it is not completely outdated. True Thatcherite economics can be illustrated easily – by winding the Bank of England up and down.

Abbey group drop protest over costs

By David Barchard

MEMBERS of Abbey National Building Society who oppose the society's stock market flotation said yesterday they were being forced to drop an application for a judicial review to overturn the authorisation for the society's conversion to go ahead because of likely costs.

However, Abbey Members Against Flotation said a leading counsel had said permission would almost certainly have been granted for the review and that it would have had a good chance of success.

Mr Alec Leaver, Amaf's chairman, said: "We have been advised that the Building Societies Commission misdirected itself on a specific point of law when confirming the Abbey National vote for conversion to PLC."

Amaf would have gone ahead with the application for judicial review had it been given an agreement by the Building Societies Commission that it would not seek an order for costs against the person making the application. The commission is the industry's watchdog. It gave Abbey National its authorisation earlier this month, after a two-day hearing in May.

Amaf said it was disappointed with the commission's decision. It contrasted the move with a friendly High Court action between the commission and Abbey National in January to resolve legal obstacles to the conversion process.

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Bank ends use of M3 monetary measure

By Simon Holberton, Economics Staff

M3, the broad measure of money supply that was so influential in government economic policy-making from the late 1970s until the mid 1980s, will no longer be compiled, the Bank of England said yesterday.

The Bank said Abbey National Building Society's conversion into a bank meant that certain monetary aggregates, including M3, would become too distorted to be useful in discerning monetary trends in the economy.

M4, which includes bank and building society assets, and M0, the narrow measure of the money supply, which includes mostly notes and coins in circulation, are largely unaffected by Abbey National's change in status and will continue to be calculated and published.

M3, which includes bank deposits, was first openly targeted in 1976 when Mr Denis Healey was the Labour government's Chancellor of the Exchequer.

Monetary targeting was carried on by Mrs Margaret Thatcher's Government but became to be relied upon less as the 1980s progressed. Mr Nigel Lawson, the Chancellor, suspended targets for M3 in 1986 and finally abandoned them in his 1987 Budget.

Government disenchantment with M3 grew as the measure was felt to be an unreliable indicator of monetary conditions because of financial deregulation. It further downgraded M3 last year when it decided to define government debt sales in terms of M4.

Mr John Shepperd, economist at Warburg Securities, said: "M3 was what we all used to be interested in and now the Bank has abolished it in a technical note. It's the final burial of 1980s monetarism."

Monetary statistics for June, which will be published next month, will mark the last time the Bank publishes data on M1, M3 and M3c, which includes banks' time deposits. Those indicators measured liquidity in the banking system.

The Bank said in a statement that there was no statistical technique that could deal with the discontinuity caused to the monetary aggregates by the redefinition of Abbey National as a bank.

The inclusions of Abbey National's deposits will inflate total bank deposits by 11 per cent, the Bank estimates. Its assets, at £32bn, represent nearly 10 per cent of all banks' sterling assets.

Mr Tim Congdon, economics adviser to Gerrard and National, the discount house, said that, although he shed no tears on hearing of the demise of M3, he thought the Bank's action was a "sweeping response to a problem that has been around in the past." He noted that when TSB's deposits were included in the banking statistics for the first time in 1981, total sterling deposits rose by 10 per cent.

Water authorities call for delay on compliance date

THE 10 water authorities are asking MPs to overturn a key House of Lords amendment to the water privatisation bill when the legislation returns to the House of Commons next week, writes Andrew Hill.

In a letter to MPs, the Water Authorities Association hit back at critics of water quality in Britain, and said a 1993 deadline for compliance with EC water purity standards was impractical.

Opposition peers altered the legislation to bring forward the deadline, but the Government is expected to seek to reverse the amendment.

The water industry believes it would be difficult and expensive to carry out the necessary work on pipes and water treatment plants within four years of privatisation.

Mr Mike Carney, secretary of the WAA, said "We think that to fasten on a single date is unnecessary. Most water supplies in England and Wales already meet most of the requirements of the EC directive and programmes of improving those that don't are going ahead at the fastest practicable rate."

Lawyers voice concern on reform 'backtracking'

THE LAW SOCIETY, the solicitors' governing body, said yesterday it was concerned by press reports that the Government was backtracking on its proposals to end the barristers' monopoly on rights of audience in the higher courts because of strong pressure from the Bar and the judges, writes Robert Rice.

Sir Richard Gaskell, the society's president, said the suggestion that judges should have a veto over progress of solicitors to wider rights of audience was alarming.

"Given the open hostility of their response to solicitors acting for their clients in the higher courts, there seems little doubt that they would use their veto to kill reforms stone dead," he said.

More than 80 per cent of people wanted the opportunity to ask their solicitor to take their case in court. They understood that the barrister's monopoly made sense only to barristers.

The suggestion that the solicitor who had prepared a case for a client would be banned from appearing in court on their behalf was equally ridiculous, Sir Richard said.

UK NEWS

Leyland DAF wins £155m army contract

By David White and John Griffiths

THE BRITISH Army's traditional Bedford lorry is to lose its preserve to a new Leyland DAF vehicle under a £155m contract announced yesterday.

The deal, to supply the forces' needs for four-tonne, four-wheel-drive trucks over five years starting next year, is expected to lead to further purchases, possibly totalling up to £500m.

The decision by the Ministry of Defence (MoD) follows months of extensive trials pitting AWD – the former Bedford subsidiary of General Motors of the US – against Leyland DAF and Volvo GB for the supply of 5,350 four-tonne trucks to the armed forces.

AWD, whose supplies of eight and 14-tonne trucks to the Army could also be exposed to heightened competition from Leyland DAF in the future, last night said it was "disappointed" at the outcome.

But it denied that the viability of its Dunstable plant in southern England, which employs more than 1,200, was threatened and said it would put its own contender, the ML 4x4, into production next year irrespective.

"It will be aggressively marketed to AWD's extensive range of customers overseas," a spokesman said last night.

Leyland DAF, created out of a merger between the formerly UK state-owned Leyland Vehicle and the Dutch truckmaker DAF in 1987, had set the stage for yesterday's announcement by winning a £150m MoD order for battlefield trucks earlier this year.

Mr Tim Sainsbury, Under-Secretary of State for Defence Procurement, told the House of Commons in answer to a parliamentary question that the Leyland DAF truck promised to provide the best value for money, taking whole-life costs into account.

Mr Sainsbury described the competition as "hard fought between three very good companies, any of whose vehicles would have met the services' requirements."

The decision is believed to have been swung by a service and spares package put forward by Leyland DAF through dealerships in West Germany, to provide back-up for the British Army of the Rhine.

The Leyland DAF 4x4 truck was developed by Leyland Vehicles specifically for the military requirement before the DAF merger. All three competitors were required to produce eight vehicles for evaluation.

Listeria warning 'took two years to come to light'

By Christopher Parkes, Consumer Industries Editor

THE DEPARTMENT of Health waited two years before alerting pregnant women to the dangers of listeria infections in food, an all-party House of Commons committee charged yesterday.

The ministry was also accused of issuing food safety and hygiene information "in dribs and drabs."

The situation might be improved if food issues were kept under constant review by an inter-ministerial committee, government-sponsored research was stepped up and officials responsible for enforcing food law were given greater powers and proper funding, the Commons social services committee said.

In a report on listeria, a common but little understood bacterium found widely in the environment, the Commons social services committee said it was unacceptable that so little had been learned about its effects on humans in view of its capacity to cause serious and often fatal disease in farm animals.

The number of confirmed cases of listeriosis in humans more than trebled between 1978 and 1988. Although the disease was still relatively uncommon, it was fatal in more than 30 per cent of known cases.

The apparently high mortality rate might be due to under-diagnosis of mild cases, the report said.

Of 291 cases recorded last year, 115 affected pregnant women, 26 of whom lost their babies.

Problems with listeria in ready-cooked poultry and some soft cheeses were identified in 1987 yet no action was taken.

It was not until February this year that Sir Donald Acheson, the chief medical officer, issued specific warnings to pregnant women and people with impaired immune systems to avoid or take special care with these products.

The Health Ministry rejected the charge. "We were the first country in the world to have issued a general warning to pregnant women about the risks of listeriosis from certain foods," it said. Sir Donald's warning was issued as soon as the epidemiological evidence warranted it, the ministry added.

Public concern about listeria followed hard on the heels of the statement by Mrs Edwina Currie, then junior health minister, that "most of British egg production is infected with salmonella."

Also, earlier this month one person died after 26 people were taken to hospital suffering from botulism in an outbreak traced to hazelnut yoghurt.

The committee also gave veiled warnings about the dangers of withdrawing government funds from research establishments, and called for continued investment.

"We would not wish to see research on the issue of food safety ... dominated by the interests of the food industry alone," it said.

The Health Department should also commission work on the association between listeria infection and stillbirths and neo-natal deaths.

Among other recommendations, the committee also proposed proper funding for local authority officials responsible for enforcing food legislation.

Environmental health officers usually plan to visit every cafe, takeaway, restaurant and sandwich bar three times a year, but in 1988 one third of all food premises received no visit at all.

Saatchis, Soviets team up to put Briton in space

By Peter Marsh

THE marketing sparkle of Saatchi & Saatchi, the world's biggest advertising agency, teamed up yesterday with the technological might of Glavcosmos, the Soviet space agency, at the launch of a project to put the first Briton in space.

Saatchi is acting as consultant to Antequera, a British company set up to mastermind the mission, which will use a Soviet spacecraft and be wholly private sector funded. The launch is due for 1991.

Antequera, the main shareholder of which is Moscow Narodny Bank, the Soviet bank based in London, plans to select the mission's astronaut over the next few months.

It will also have the job of raising the £16m needed to finance the voyage.

The space trip will mean that Britain - after several false starts in recent years in the effort to produce the country's first astronaut - will join the ranks of the 21 other countries whose citizens have entered orbit since manned space flights started in 1961.

Mr Mike Parker, a Saatchi manager who will be in charge of his company's role in the project, said he was confident a large part of the cash could be raised from companies interested in sponsoring the mission.

He said a range of companies, including food groups or suppliers of other consumer items, could expect to gain kudos by having their products taken into space or by being associated with the mission. "I think you will see a lot of imagination being applied to this question over the next few months," he said.

Another way to gain private-sector finance for the mission will be through companies renting space on the flight for scientific experiments in areas such as low-gravity materials processing. A team of technologists at Brunel University in London is to advise on this aspect of the plans.

The project, formally christened Juno, was unveiled yesterday at a formal signing in Moscow of an agreement between Glavcosmos and Antequera.

Mr Alexander Dunaev, head of Glavcosmos, said the project was a mark of the special friendship between the Soviet Union and Britain.

Lord Young, Britain's Trade and Industry Secretary, who was present at the signing ceremony, said he was particularly pleased the project was going ahead without any UK government finance.

Lord Young and other ministerial colleagues have been anxious for the past two years to draw more private sector finance into space projects.

Over the next few months Antequera will be sifting through applications for a team of two UK astronauts, both of whom will undergo training although only one will enter orbit.

Prospective space travellers should be athletic, aged between 21 and 40 and have a university degree in science, engineering or medicine.

Would-be astronauts can learn more by telephoning (01-224 2211) one of Saatchi's offices, will also have to be prepared to learn Russian. The salary has not been disclosed but is negotiable.

Move to common account standards

By David Waller

HARMONISATION of the world's financial statements – whereby a balance sheet published in Iceland or Switzerland would be comparable to a British or a Japanese one – inched closer yesterday after the UK's Accounting Standards Committee endorsed a new draft framework on the preparation and presentation of financial statements.

The document, drawn up by the International Accounting Standards Committee, addresses general issues of principle rather than specific problems such as the treatment of goodwill. However, both the ASC and the IASC claimed that the framework was an important milestone on the long road to accounting standardisation.

Mr Michael Renshall, ASC chairman, said that many of the reports recommendations and conclusions on subjects such as the objective of financial statements and the meaning of profits would seem somewhat uncontentious to accountants and businessmen in the UK.

However, he suggested that much of the document would be considered radical and shocking in other accounting regimes, even in highly developed economies in continental Europe. If other national accounting bodies endorsed the framework, he argued, the path towards true harmonisation would be much easier.

Mr Georges Barthes, chairman of the IASC who was in London yesterday, predicted that financial statements would start being genuinely comparable in 1992-93. Earlier this year, the IASC circulated draft proposals for the ironing out of differences in the accounting treatment of pensions, goodwill, currency translation and other contentious areas.

£25m 'jumbo ferries' planned for Channel

By Kevin Brown, Transport Correspondent

SEA CONTAINERS, the Bermuda-based parent company of Sealink British ferries, yesterday announced details of a £50m plan for two "jumbo ferries" to compete with the Channel Tunnel.

Mr James Sherwood, president of Sea Containers, said the two ships would enter service next year after being refitted in West German shipyards at a cost of more than £25m each.

Mr Sherwood said the ships, to be named Fiesta and Fantasia, would be among the safest in the world. Suggestions that they might not be safe were "absolutely false."

Doubts about the safety of the ships were raised on Wednesday by Stena, a Swedish ferry operator which is part of a consortium trying to take over Sea Containers.

Stena drew attention to the fate of the Zenobia, a sister ship of the two Sea Containers vessels, which sank off Cyprus in 1980.

However, the report of the official Swedish board of inquiry, produced by Sea Containers yesterday, shows that the loss was caused by a combination of human error and faulty loading, rather than a design fault.

Sea Containers bought the ships 18 months ago from Somat, the Bulgarian state operator, for $50m and has been using them as freight vessels – the role for which they were built in Sweden nine years ago.

The refitting work, to be carried out at the Lloyd Werft and Bremer Vulkan yards, will increase the capacity of the ships from 175 passengers to 1,800, plus 650 cars.

The technical specifications of the ships will also be changed considerably by the addition of 2-metre sponsons, subdivided into watertight compartments, on each side.

In effect, these will combine the functions of car bumpers and lifebelts, helping to limit collision damage to the ship and keep it afloat while passengers are evacuated.

Mr Tony Rogan, the naval architect in charge of the refitting, said the refitting work would make the ships safer than required by current UK and international legislation.

Ferry safety rules have been tightened since the P & O ferry, Herald of Free Enterprise, capsized off Zeebrugge, Belgium, three years ago with the loss of nearly 200 lives.

"There is no such thing as an unsinkable ship, and only a fool would attempt to describe a ship as unsinkable, but I think you would have to look a long way before you could find a ship with the standards which (will be) built into this one," Mr Rogan said.

Sea Containers' strategy is to improve its Channel services by offering passengers comfort and quality in the hope that *they will shun the tunnel when* it opens in 1993.

However, the strategy depends on the willingness of the UK and European Community regulatory authorities to allow Sealink and P & O, its main competitor, to operate a joint service.

Mr Sherwood said no serious problems had arisen in preliminary talks with the Office of Fair Trading and the European Commission. The two companies hope to start operating a joint service next year.

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'No secret agenda on health'

By Alan Pike, Social Affairs Correspondent

THE Government's proposed health reforms do not contain a secret agenda for dismantling the National Health Service, Mr David Willetts, director of studies at the Centre for Policy Studies, said yesterday.

Mr Willetts, a former member of the Prime Minister's Downing Street Policy Unit, has played a leading role in advising the Government on health and welfare policy.

He gave his assurance that the changes were not a prelude to dismantling the NHS at the launch of a pamphlet about the reforms which he has written for the Conservative Political Centre.

Mr Kenneth Clarke, Health Secretary, who accompanied Mr Willetts, said he hoped the pamphlet would "help allay the fears of some people both inside and outside the NHS which have no relation to what is actually proposed in the White Paper [policy document]."

During three years of working for Mrs Margaret Thatcher at Downing Street, the Prime Minister's office, and the subsequent 2½ years at the CPS *which she helped found*, writes Mr Willetts, "she has never once, even in the most private conversation, ever suggested that the real objective must be to dismantle the NHS and get people to pay for their own health care."

It was not the Government's policy to dismantle the NHS and force people to pay directly for their own health care. Critics and sceptics should focus their attention on the policy set out in the White Paper and not on some false, imaginary policy that could not be found in any government document or ministerial statement.

All advanced countries, says Mr Willetts, have publicly financed health care systems. Even the US spent almost as high a proportion of gross domestic product on publicly financed health care as the UK did.

This approach belonged to the traditions of social insurance, under which money was redistributed from the healthy to the sick and between age-groups.

"It is precisely because the NHS does the job efficiently that private payment would not work," he said.

"Even if every adult person in full-time employment were paying for his or her own health care, there would not be a significant reduction in the burden on the NHS," said Mr Willets.

Charity launches AIDS insurance

By Eric Short

LIFESHIELD Foundation, the AIDS charity, is introducing an insurance policy to cover the financial consequences of individuals becoming HIV positive.

Until now, the insurance industry has completely eschewed providing any cover against AIDS (Acquired Immune Deficiency Syndrome) and, in certain cases, excludes or restricts policyholders from cover if they become HIV positive – the first stage that can lead towards the ultimate onset of the virus.

Mr Ray Storey, managing director of Lifeshield Risk Management, the marketing arm of the Foundation, said that until now people who became HIV positive usually have to fend for themselves, often against appalling odds.

He pointed out that such people faced lengthy medical treatment which invariably involved them in additional expense.

On top of that, many people becoming HIV positive found themselves being made redundant by their employers once it became known.

Mr Storey referred to the recent television programme on the subject which showed such practices to be common despite the exhortations by the Department of Employment over discrimination against HIV positive sufferers.

To meet these needs, Lifeshield Foundation and Layton Blackham, the Lloyd's correspondents, had devised a special insurance policy, which was a combination of personal accident insurance, medical insurance and legal expenses contracts. The policy will be underwritten at Lloyd's.

If the policyholder is confirmed to be HIV positive, then the policy will pay cash benefits of up to £75,000, cover legal expenses of up to £15,000 (including an immediate £500 cash payment so the individual can take legal advice) and provide claimants with a five-year treatment support programme (counselling, stress management and other therapies) up to a maximum of a further £10,000.

At present, the plan is only available to groups of employees – either on an occupational group basis such as doctors, nurses, dentists, social workers – or to companies to cover their employees. Normally, the underwriters would require a minimum of 25 people in the plan.

The plan, as yet, is not available as an individual contract.

No medical evidence is required at the outset, but there are four declarations which must be signed:

- The individual is not HIV positive at the start of the contract;
- The individual does not inject drugs other than those prescribed by a doctor;
- The individual does not indulge in non-heterosexual activities;
- The individual will not deliberately inflict the HIV virus.

Higher amounts of cover are available subject to medical evidence, including undergoing an HIV blood test.

Contracts are rated on an individual basis according to occupation and level of cover, starting at £25 a year per person covered. Contracts are renewable on an annual basis. Cover can be extended to people involved in working or travelling overseas.

* *Details from Lifeshield Risk Management, 10 Upper Grosvenor Street, London W1X 9PA.*

N Sea oil bids 'show confidence in future'

By Max Wilkinson, Resources Editor

THE LATEST round of applications for North Sea exploration licences showed renewed confidence in the future of the UK sector Mr Peter Morrison, the energy minister, said yesterday.

He was announcing the award of 105 licences in the eleventh offshore round after receiving 414 applications to explore individual blocks, many more than in previous rounds.

The bidding showed a sharp recovery in confidence compared with the last round when only 61 licences were awarded on the basis of 127 blocks on offer. In the latest round 212 blocks were on offer and awards were made for a higher proportion of them.

The Government appears to have done its best to encourage independent oil companies, making about a third of the awards to smaller companies, including some prime acreage.

Mr David Black, analyst for County NatWest WoodMac, the broking firm, said Enterprise Oil, the largest UK independent, and Cairn Energy appeared to have done particularly well, and he said that some of the larger companies which had teamed up with British independents seemed to have been given desirable areas to drill.

Mr Black said the results suggested the Government had rewarded oil companies which had shown an aggressive attitude to drilling existing concessions. "Altogether, this seems to have been a fairly balanced round with something in it for everyone," he said.

Mr Morrison said he had told companies which had been sitting on "fallow" blocks from earlier rounds that he expected them to start a drilling programme as soon as possible. The conditions attached to the most recent licences have been tightened to reduce the total period of tenure in the absence of drilling from 26 to 18 years.

The minister said: "The round has been a great success. Virtually all the significant companies involved on the UK continental shelf have made applications."

The drilling programmes offered by applicants were particularly robust, he said. On average applicants offered to drill 2.38 wells per block, a higher figure than in any previous round.

He added: "The industry has responded magnificently and its commitment will ensure that the UK continental shelf continues to be a major international oil province well into the 21st century.

Most of the awards were in the central and southern North Sea.

Minister rejects calls for HK contingency plan

AN ARMAGEDDON situation in Hong Kong is unlikely to arise following its return to China in 1997, Lord Glenarthur, the Foreign Office minister responsible for the colony, said yesterday in the House of Lords, writes John Mason.

He rejected urgent calls by Lords from both sides to give *detailed contingency plans for* such a crisis to the people of Hong Kong to restore confidence and halt the current large scale emigration.

Lord Glenarthur said to demand detailed contingency plans now was seeking an instant solution to a problem "that is not even likely in its ultimate form."

Lord Eden of Winton, Conservative, said Sir Geoffrey Howe, the Foreign Secretary, should "spell out with complete clarity" what plans Britain had when he visits Hong Kong next week.

Lord Glenarthur said it was *impossible to go into detail.* Britain had eight years to wait and everything could change between now and then. He said it was necessary to distinguish between a possible Armageddon situation and the present circumstances which were worrying but not catastrophic.

MANAGEMENT

Christopher Lorenz concludes his series on Electrolux, the Swedish appliances giant, by assessing the extent to which it has become a fully-fledged multinational

Desperately seeking the truly international manager

Electrolux "is not a multinational, but an international company run by Swedes," says Jim Ringler, the Stockholm-based group's second most senior executive in the US.

That is a severe judgment on a company which has managed to reduce its reliance on its home country to only 17 per cent of its SKr 74bn (£7.1bn) revenues and 20 per cent of its 147,000 employees, and which prides itself on putting local management in charge of its considerable manufacturing and sales operations in 50 countries around the world.

In some ways Ringler's comment is unfair, since in product development and several other activities Electrolux is starting to develop the flexible combination of centralisation and decentralisation which business academics see as the hallmark of a fully-fledged "transnational".

But in other ways the description is largely accurate – as it would be, with the appropriate national label, for many other European and American companies which have undergone international expansion in the past few years, and have not yet resolved the dilemma of how to bring managers of other nationalities into key international roles all over the organisation.

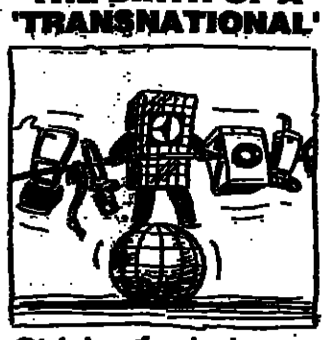
Jim Ringler may say he is "quite comfortable" with the nationality situation, but others within Electrolux – including the company's top management in Stockholm – see it as a potential threat to the group's global ambitions.

Like most other managers in the many companies which Electrolux has bought in the past decade, Ringler admires the open style of the top team from Stockholm, and the expertise which they and their staff bring to bear on the "coaching" of their new subsidiaries.

John Gehling, a veteran at White, the company's largest US acquisition so far, describes his three years under the Electrolux regime as "the most stimulating since I started working 47 years ago."

Jim Ringler claims that "no American has the ambition to get into Electrolux group management, nor to speak Swedish" – a reference to the fact that, though the company's official language is English, *many of the most important* discussions take place informally in Swedish, either over coffee back in Stockholm, or commuting between meetings around the world.

THE BIRTH OF A 'TRANSNATIONAL'



Striving for balance

Not everyone in the US agrees with Ringler on this. But in Italy, Electrolux's third largest country of operations after America and Sweden, views are much more mixed than those voiced in the US.

On the plus side, Aldo Sessegole, an old Zanussi hand who heads the joint group's white goods marketing in Italy, says "the lack of Swedes in Zanussi is a very nice surprise." When Electrolux bought the Italian company in 1984, he and his colleagues expected it to follow the same approach as Philips, the Dutch multinational, which imported a large team of Dutch expatriates when it acquired Ignis, one of Zanussi's key local competitors, in the early 1970s.

"In our case, nothing of the kind happened, and there was no trauma," says Aldo Burello, Zanussi's washing machine development chief.

Instead of following the Philips lead – and the approach of countless American multinationals towards the staffing of past foreign acquisitions – Electrolux appointed two senior Italians to run Zanussi: Gian Mario Rossignolo as chairman and Carlo Verri as managing director.

"Rossignolo and Verri stressed their intention of using Zanussi people," recalls Burello. And so it has proved in most cases, though a couple of senior (Italian) executives have since been brought in.

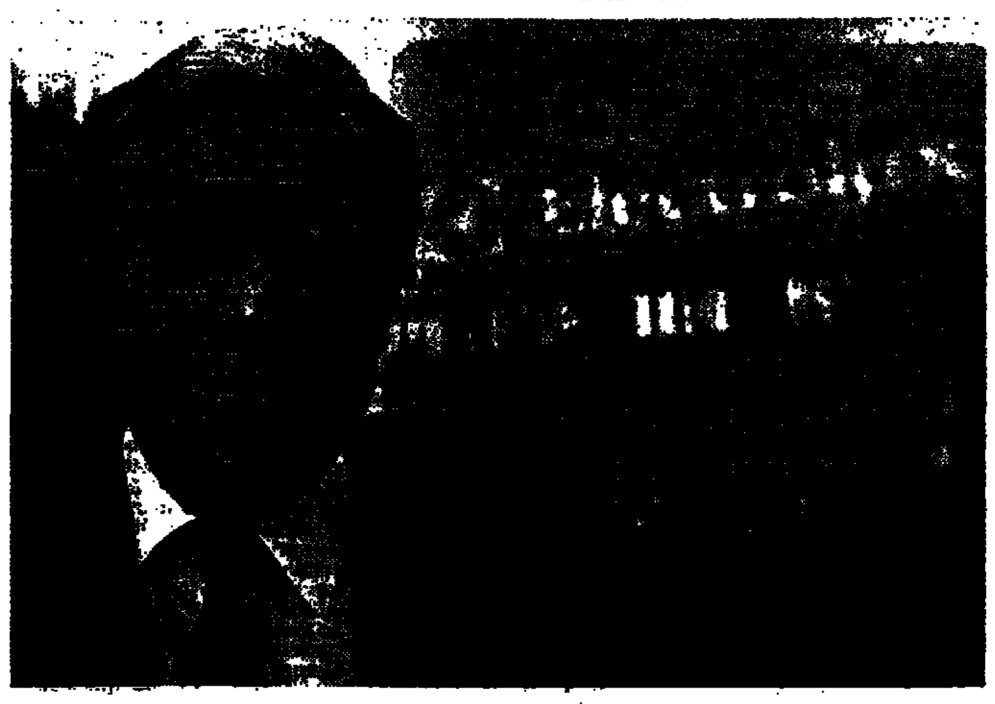
Moreover, Burello and another Italian, Sergio Pusca, have been given senior international co-ordination roles within the Electrolux group – Burello for washing machine development and Pusca for European white goods marketing. *A third, Fulvio Borsero is* now head of the components product line.

But, on the negative side, there is some unease in the Italian ranks about the fact that all but one of the top Electrolux group management positions are still occupied by Swedes; the exception is Don Blasius, an American who is Electrolux's long-standing top man in the US, but who now has only a limited line management role, operating instead mainly as an elder statesman and "extended arm" of the central staff in Stockholm.

Rossignolo expresses the Italian feeling with some force. Electrolux needs to remember its 1984 promise not to "invade" the Italians, he says. "There has been no open criticism, but what is said is not always what people are thinking."

To some extent this attitude is unfair, and reflects the machinations of fate, rather than a reluctance on Electrolux's part to promote exceptional Italians. After Carlo Verri had turned round Zanussi in impressive style, he was appointed head of the new international components product line in early 1987, and a year later he was co-opted onto the Electrolux executive committee as a deputy member.

Had Verri stayed, he would probably soon have taken on a second product line as well, as several Swedes have done in the past year or two. But last summer he was offered a prestige job he could not refuse: the presidency of Alitalia, the troubled Italian state airline. Fulvio Borsero, his successor, now reports not to Anders Scharp, the Electrolux president, but to a different member of the management committee.



Anders Scharp: "We're not acting as quickly as we ought to"

Scharp himself is acutely conscious of the need for Electrolux's management to have a more international complexion, both at the top and below. "The group is too Swedish today," he declares. "I've said many times that its future depends very much on the internationalisation of management. We've been trying to allocate group responsibilities internationally – but I'm worried that we're not acting as quickly as we ought to."

The problem is particularly pressing in Electrolux's largest division, the white goods product line, into which most parts of White and Zanussi have been integrated. Its head, Leif Johansson, recognises that good non-Swedish managers lower down the organisation "need to have a way to grow and develop international roles – otherwise we'll lose them."

One difficulty is that Electrolux's informal style, its reliance on personal relationships, and the continued use of Swedish among the top managers, make it hard for people based outside Sweden ever to become complete "insiders". Johansson admits that having key international co-ordinators based maybe thousands of miles away from Stockholm is awkward, despite modern telecommunications, and that it is well-nigh impossible to get foreigners to come and live there.

Johansson has considered moving his entire management team to a more convenient and attractive international business centre, such as somewhere in England or Switzerland. But this would involve considerable personal dislocation for the many Swedes involved, which might generate just as much travel back to Stockholm. And he says it could all too easily create a situation 20 years from now where most headquarters staff were either British or Swiss, rather than Swedes as at present. That would solve nothing.

"So our position has to be that where we all live cannot be allowed to matter much," he says. Provided key people are prepared to continue travelling extensively (see below) the main priority must be for more and more international functions to be decentralised from Stockholm to elsewhere in Europe – and the US; this is one of the characteristics of a full "transnational", as opposed to a mere multinational.

One model for this within Electrolux is Aldo Burello's part-time role as the international head of product development in washing machines, in addition to his job as head of one product division in Italy.

To help broaden the perspective of all its managers from their traditionally national horizons, and to breed a new cadre of internationalists, Electrolux last year launched an executive development programme for hand-picked managers between 33 and 43 years of age. Such programmes may be common practice in other companies, but Electrolux has relied until recently on finding new management talent through its many acquisitions, and has had a "rather negative" attitude to formal management education, according to Mats Aguren, the group's new administration director.

With 30,000 employees in the US, 15,000 in Italy and 12,000 in the UK, for example, "we must be able to train up these people," says Anders Scharp. "This will be one of the big issues of the next decade." Leif Johansson adds that "twenty years from now I'd expect a very mixed international group of people running white goods."

The question is how to get there. The answer may involve more dramatic solutions than Electrolux is at present willing or able to take. In the words of Gian Mario Rossignolo, "one day Electrolux will have to consider spreading its headquarters people around the globe, just like the Catholic Church – the only real multinational in the world."

Previous articles in this series appeared on June 19, 21, 23, 26 and 28. A reprint is being prepared by the FT publicity department.

Peripatetic executives take the strain but don't complain

Like many other senior Electrolux managers, Fulvio Borsero spends at least half his year travelling away from his office. As product line manager for the group's international components group, with sales of SKr 4.3bn (£414m), Borsero is based in Turin, in Northern Italy. But his territory embraces 17 factories, with their output split between various places in Europe and North America.

Together with trips to Stockholm headquarters and to customers around the world - a good half of his sales are made outside Electrolux - his lifestyle is decidedly nomadic.

This way of operating, which applies to most people at or near the top of Electrolux's product lines (divisions), as well as to top executives and senior staff from head office, is considered a great virtue by almost everyone in the group, in spite of its obvious personal drawbacks.

Most of the travel is on commercial airlines, but to save invaluable time Anders Scharp, the chief executive, and his deputy, Lennart Ribohn, make frequent use of one of the corporate jets, an aircraft which came as part of the big Italian acquisition of 1984, and is still known as "the Zanussi plane", as if it did not quite suit Electrolux's sparse corporate style.

"All of us reckon that the efficiency of this travelling is very high," says Borsero. "The speed of decisions you get by being on the spot is very much greater than it would be through reports, correspondence or whatever. Personal contact is by far the most effective."

Leif Johansson, product line chief for white goods and (unlike Borsero) a member of the group executive committee, says that for him and his immediate colleagues the system benefits all concerned in two ways.

On the one hand, it is important for local managers on the ground to meet people from head office as often as possible, to "give change a face," he says. "They need to see us not as bad guys from head office, but as normal people who say 'hi' to them, and discuss matters of common interest. It gives people the feeling that top management knows what the business is about."

Johansson agrees with Borsero that, in many ways, the system actually saves time. A graduate engineer, like most of his top Electrolux colleagues, Johansson says: "I'm too much of a technician to spend five hours in an office discussing plans for a new washing machine plant, when I can see for myself in half an hour."

In keeping up the pace, Johansson and co need to be blessed with one or more of several attributes: an understanding family (he has one); youth (he is only 37); and a strong constitution (he has no trouble sleeping well on aircraft, whether on a short hop from Copenhagen to London or on a two-day dash to the US and back in the middle of a week in the office).

For Electrolux managers there is no question of following the old multinational rule, once prized by the likes of Shell and IBM, of taking a rest day at home after a flight on the transatlantic red-eye. If the Swedish company allowed itself that sort of luxury, it would quickly grind to a halt.

FT LAW REPORTS

Liquidator can disclose documents to a creditor

AML HOLDINGS INC v AUGER
Chancery Division: Mr Justice Warner: May 22 1989

THE LAWFUL acts of a liquidator are not confined to the exercise of his statutory powers to deal with the company's assets and liabilities for the purpose of the winding-up, but include acts incidental to his custody of company documents and other assets, provided their performance costs the company nothing. And, accordingly, a liquidator is not precluded from disclosing non-privileged and non-confidential documents to a creditor to assist it in litigation with defendants against whom he also has a claim, if it reimburses any expense, or if disclosure could benefit the winding-up in that the creditor may reciprocate.

Mr Justice Warner so held when dismissing an application by AML Holdings Inc for a direction that Mr GA Auger, liquidator of Acli Metals (London) Ltd, should not disclose information belonging to Acli to an Acli creditor other than for the purposes of the liquidation.

HIS LORDSHIP said that three of Acli's creditors had proved or were likely to prove in its winding-up.

They were Metall und Rohstoff AG (M & R), for about £344m; AML Holdings Inc (AML) for about £11m; and the Inland Revenue for an amount which would probably be between £262,000 and £1m.

M & R had commenced two actions in England against AML and Donaldson Lufkin & Jenrette Inc.

The first, begun in 1987, was a claim for inducement of breach of contract, the gist of which was that Donaldson Lufkin and AML had induced Acli to break its contract with M & R.

The facts on which that claim was based were much the same those on which misfeasance proceedings by the Acli liquidator were based.

A second action was brought by M & R against Donaldson Lufkin and AML in 1988.

M & R had also brought a fresh action against the same defendants in New York.

The liquidator said in an affidavit that he might have claims against AML other than the claim for misfeasance, including a claim for interest on a loan.

The present application related to documents in the liquidator's possession. The court was only concerned with those to which rights of privilege and confidentiality did not apply.

AML contended that even in the case of such documents, it was entitled to safeguards in connection with their disclosure to M & R. The liquidator had said he intended to produce reports to M & R on specific aspects of Acli's affairs, and to discuss them with M & R.

By the present application, AML sought a direction that, save under compulsion of law, the liquidator should not disclose to M & R any reports, documents or information belonging to Acli, without first obtaining a written undertaking from M & R that it would not use them other than for the purposes of the Acli liquidation.

AML conceded that the liquidator was entitled to disclose documents and information to M & R for the purpose of obtaining assistance from M & R in pursuit of his own claims against AML. It contended, however, that he could not disclose documents or information for the purpose of assisting M & R in its claims against AML.

The foundation of AML's case was that the liquidator had no power to use documents belonging to Acli or the information derived from them for any purpose other than for the purposes of the winding-up.

Mr Chadwick for AML contended that the liquidator in a winding-up by the court had only the power conferred on him by statute, and that nowhere in the Insolvency Act 1986 or any other statute, was there a power to use the company's documents for any other purpose.

He pointed to section 143 of the 1986 Act, which defined the liquidator's functions as "to secure that the assets of the company are got in . . . ."

He then pointed to section 167 which introduced Schedule 4 in which the liquidator's powers were listed. In none of the paragraphs of that Schedule was there a power enabling the liquidator to use documents belonging to Acli for the purpose of assisting M & R's pursuit of its claims against AML.

Mr Chadwick cited *Re North Brazilian Factories (1887) 37 Ch D 83*, a case on section 156 of the Companies Act 1862, which was the ancestor of section 155 of the Insolvency Act 1986.

That section was concerned with inspection of company books and papers by creditors and contributories under an order of the court.

Mr Chadwick's point was that such inspection could only take place with a view to the more beneficial winding-up of the company.

Mr Mann for the liquidator said that a fallacy underlay the contention, in that the present case did not concern "power" in the sense in which it was used in Schedule 4.

He said Schedule 4 conferred on a liquidator power to enter into transactions affecting the company's assets and liabilities so as to bind the company, its creditors and contributors. It was not concerned with matters that were merely incidental to the custody of the company's assets, including its documents.

He gave examples illustrating the extraordinary consequences that might flow from accepting Mr Chadwick's contention.

Suppose, he said, that a company developed an estate and went into liquidation having in its possession old documents relating to that estate; and suppose that someone got involved in a boundary dispute to which the company was not a party, and asked the liquidator if he could look at the documents to see if they helped his case.

While the company was a going concern, its directors could have acceded to that request. Was it to be said, Mr Mann asked, that when the company was in liquidation, the liquidator was compelled to refuse because Schedule 4 did not empower him to accede to it?

Mr Chadwick's answer rested largely on *Hutton v West Cork Railway (1883) 23 Ch D 654*. In that case the Court of Appeal held that since the company was no longer carrying on business its directors only had such powers as were necessary for or incidental to its winding-up.

He submitted that acts of "neighbourliness" were within the incidental powers of directors of a company which was a going concern because it was in its interests that it should be well-regarded by the outside world.

Once, however, the company had gone into liquidation, that was no longer so. Its interests were then confined to its winding-up.

Hutton was not in point.

The proposal there was that payments should be made out of company assets to compensate officers for loss of employment.

If Mr Mann was right in saying one might distinguish between a power to do something affecting assets or liabilities and a power to do something that did not impinge on assets and liabilities, but was merely incidental to the custody of assets, *Hutton* was clearly about the first category.

Nor did *North Brazilian Sugar* really help. There Lord Justice Cotton said: "I do not say that in no case can general inspection be ordered where it is not for the general benefit of the contributories, but *prima facie* it is only to be ordered with a view to their general benefit."

The distinction suggested by Mr Mann was sound.

The law would serve no useful purpose if it forbade a liquidator to do acts falling within Mr Mann's second category.

That was on the footing, however, that such acts cost the company nothing.

The court raised the question whether it was relevant that, in complying with requests from M & R for documents or information, the liquidator would almost inevitably incur expense. He was a professional man and charged for his own and his staff's time.

Mr Chadwick replied that it would be unlawful for him to comply with M & R's requests, whether or not he incurred expense in doing so.

Mr Mann's reply was that it would be open to the liquidator, if he thought fit, to require M & R to indemnify him against the cost of supplying it with documents and information. However, he must bear in mind the need to remain on good terms with M & R.

Helping M & R in the pursuit of its claims might be the price he had to pay for M & R's help in pursuing his own claims. If so, helping M & R would be beneficial to the winding up and would be within paragraph 13 of Schedule 4.

Mr Mann's reply was accepted.

This was a field in which a liquidator must exercise a discretion and in which what he did as simply incidental to the custody of the documents might shade into something he did under paragraph 13.

The application was dismissed.

For AML: John Chadwick QC and Richard Sheldon (Freshfields).
For the liquidator: Anthony Mann (Wilde Sapte).

Rachel Davies
Barrister

TECHNOLOGY

Stanley Pons and Martin Fleischmann

While many scientists have poured cold water on cold fusion, at least one large company is backing further research, as **Clive Cookson** discovered in an interview with Fleischmann and Pons

GE backing softens blow of scientific scepticism

General Electric, one of the largest US companies, is to collaborate with the University of Utah to develop the "cold" nuclear fusion discovery of Martin Fleischmann and Stanley Pons.

The GE agreement has prompted the Governor of Utah, Norman Bangerter, to ask for the release of $5m of state funds to set up a fusion research centre at the university. He regards the controversial discovery, first announced on March 23, as now "confirmed".

This is despite the fact that many laboratories have failed to confirm the Fleischmann-Pons finding that a palladium electrode immersed in heavy water produces large amounts of heat through nuclear fusion. The UK Atomic Energy Authority's Harwell laboratory gave up its cold fusion research programme after three months of intensive work by 10 scientists had failed to produce any positive results. Publicity given to the failure at Harwell has caused many people to conclude that cold fusion is dead.

Elsewhere, however, signs of nuclear fusion in palladium have been reported. A few scientists have measured excess heat output and some have detected the expected products of fusion: neutrons (sub-atomic particles) and tritium (a radioactive isotope of hydrogen).

US institutions where scientists have found some evidence to support Fleischmann and Pons include Stanford University, Texas A&M University and Los Alamos National Laboratory. "Altogether 20 to 30 research groups have piecemeal confirmation of our findings," Pons says.

The level of scientific support, combined with GE's industrial collaboration, may be sufficient to persuade the state to fund a cold fusion research centre at the University of Utah, despite intense criticism of Fleischmann and Pons from many other quarters. The plan is for about 40 scientists to work in a 22,000 sq ft laboratory on the university research park.

The university expects shortly to sign a second industrial collaboration agreement – with Johnson Matthey of the UK, the world's leading supplier of platinum metals, including palladium. "Johnson Matthey is number one in platinum metal chemistry," says Fleischmann.

The company is working with Fleischmann and Pons to identify the critical features of the palladium electrodes. The patchy experimental results so far suggest that cold fusion is highly dependent on the precise crystal structure of the palladium and on the level of impurities in it.

"We will continue to do whatever work we consider appropriate to increase our understanding of this interesting but confusing field," says Bruce Tofield, director of the Johnson Matthey Technology Centre.

The advantages of collaborating with GE, one of the world's largest high technology companies, are clear. "Right at the beginning I said we had to work with GE because I wanted to have their patent team on our side," Fleischmann says. "We know their electro-chemists and the overall strength of their industrial laboratory."

GE will initially assign four scientists to work with the university on cold fusion. The company will also make available materials, equipment and other resources. "If we have to design a new piece of equipment with elaborate pipework, they will put an engineer on to it – which will save us having to go to the textbooks to do it ourselves," Fleischmann says.

The two electro-chemists have spent the last fortnight in England. They are secluded in Fleischmann's family home in rural Wiltshire, far from the fusion fever that still grips Utah, trying to rest and to prepare a second scientific paper which will give a fuller account of their solid-state fusion experiments. (They prefer the phrase solid-state fusion because the nuclear reaction takes place in a crystal lattice, rather than in the gas plasma of a conventional fusion reaction.)

They admit that their first paper, published in April in the Journal of Electro-Analytical Chemistry, was not as complete as they would have liked. They are now carrying out more control experiments, with cells containing light water as well as heavy water and a larger number of different electrodes. The input and output of heat is being analysed via two independent calorimetric techniques.

Meanwhile the experiments bubble on in Pons's chemistry lab in Salt Lake City, tended by colleagues who fax the latest readings from the instruments to England every day. "By the end of this summer, we want to get to the position we had hoped to reach by the summer of 1990," he says.

Their plans have been hastened by the early publication, which Fleischmann says was forced on them. This was because a rival research team at Brigham Young University, headed by Steven Jones, wanted to publish the results of similar cold fusion experiments which produced neutrons but no heat. "Knowing as we did that there was an excess release of heat, it was inconceivable that we should not inform the University of Utah and inconceivable that the university should not apply for a patent."

Pons and Fleischmann personally opposed the university's decision to announce their results through the March 23 press conference – an event that brought them not only instant celebrity but also instant hostility from many scientists who thought that they should have followed the traditional procedure of publishing in a scientific journal.

Fleischmann says that he does not understand why the Harwell experiments, which he helped to set up, failed to produce evidence of solid-state fusion. He claims, however, that experiments failed in some other laboratories because "incompetent" physicists did not understand the principles of electro-chemistry.

And he denies the suggestion that he and Pons may deliberately have withheld key information about the process in order to delay other scientists while they pursued their experiments. "We have not consciously kept anything back, although we are conscious that there are factors which are important and which people ignore."

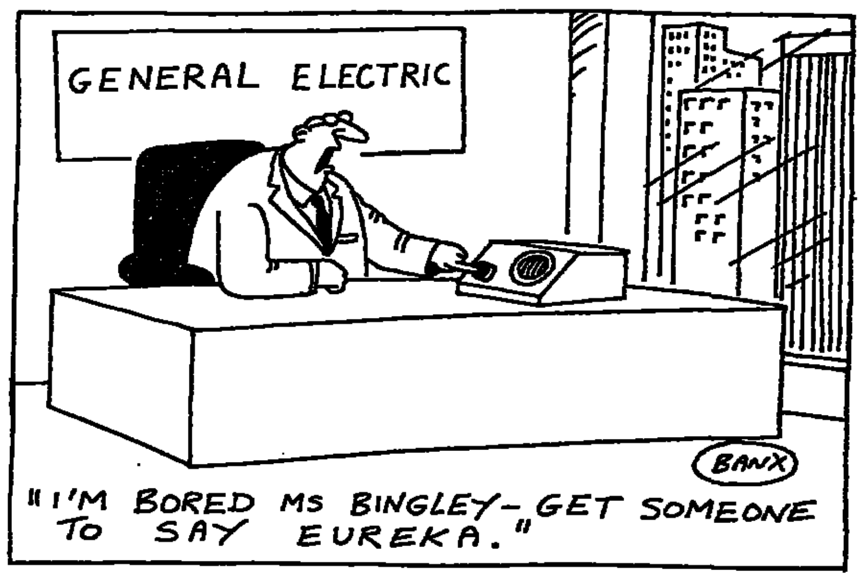
Fleischmann now believes that two separate nuclear processes can take place in palladium electrodes. One is a "background process" which produces fairly steady low levels of heat. The most likely candidate for this is two deuterons (deuterium nuclei) fusing to form helium-4; the energy of the reaction is transferred directly to the crystal lattice as heat.

The second process is far more energetic. It gives occasional bursts of heat, tritium, neutrons and radiation. In this case, the fusion of two deuterons produces either tritium and hydrogen or helium-3 and a neutron. The special conditions that initiate and terminate the fusion bursts remain unclear.

On their plans for the future, Pons and Fleischmann say that they "do not want to manage a huge solid-state fusion development project. However, we will be involved in developing a cell which gives a ready demonstration of excess heat generation."

Looking several years ahead, Pons sees the first practical application of solid-state fusion in "providing low-grade heat for space heating."

The next phase would be to use the heat from fusion cells to raise low-pressure steam for electricity generation. They believe that one palladium rod could eventually produce "a few tens of kilowatts" of energy – enough for a single household.



Less muck in the coal

BRITISH Coal is to spend nearly £10m fitting underground coal-cutting machines with automatic steering, a technique developed in the UK.

About 50 shearers – machines that cut and load up to 1,200 tonnes of coal an hour – will be involved in the programme which is designed to increase efficiency.

The automatic steering system makes use of on-board sensors which measure the natural gamma rays emitted at very low level from the rock layers above and below the coal seam. The information is fed to a computer on the machine which controls the revolving cutting drum, keeping it within the seam as it makes its run along the coal face.

The new machines could save British Coal millions of pounds in lost output because for every two tonnes of coal won, one tonne of dirt is taken to the surface, half of which comes from the face. Automatic steering reduces the amount of dirt mined from the face by up to 40 per cent.

These systems are only suitable at present for half the UK faces. British Coal's research centre at Bretby, in the Midlands, is aiming to make them universally applicable.

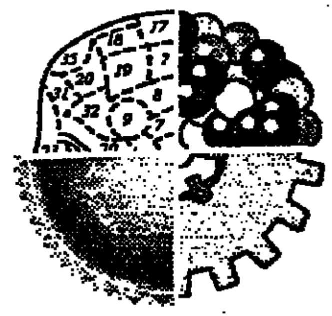
Human shortages in telecoms

THE UK's shortage of telecoms engineers is getting worse, according to a survey of 500 professionals carried out by PA Consulting Group of London.

Many work long hours just to keep abreast of work – one individual was receiving the equivalent of two thirds of his annual salary in overtime earnings. "Basic salaries," says the report, "clearly do not represent the true level of earnings of these specialists."

The survey, entitled Employment, Pay and Benefits Trends in Telecommunications 1989, looks at jobs ranging from engineer to director of telecoms. Shortages exist at most levels and PA says this could affect the UK's ability to operate successfully in the single European market.

To attract and retain people, companies are being



WORTH WATCHING

Edited by Geoffrey Charlish

forced to top up salaries with a wide range of other payments and benefits, including private medical insurance and company cars.

The survey costs £300.

Quick change of venue

A FRENCH architect, Henri Chauvet, has devised a means of turning an 800-seat auditorium into an open arena for a sporting event in less than half an hour.

The system makes use of an adjustable floor with collapsible seats. Each row of seats is mounted on continuous, electro-mechanical chain belting.

A single operator can modify the entire space, either by removing the seats altogether (into a storage space under the stage), or by taking out some of the rows according to the seating capacity required.

It is also possible to raise the floor, using hydraulic jacks, so that it slopes upwards from the stage to give better visibility. Once the computer has calculated the best angle for a particular event, a set of metal supports is automatically moved into place to reduce wear and tear on the jacks.

Sales forum for phone lines

COMPANIES needing telecoms capacity will be able to find ones selling it, on lines leased from British Telecom or Mercury, via Resale Forum, a service being launched by Octagon Telecommunications Services, of London.

Until recently, a company with such capacity was forbidden to sell any of it to third parties, but an announcement by the Trade and Industry Secretary has changed that. Now it is possible for companies to club together to share high-capacity private circuits. Furthermore, professional re-sellers may set up in business, offering discounts on Mercury and BT prices.

Resale Forum will keep a central register of routes in the UK on which re-sellers are offering capacity. Using electronic mail to send material to personal computers, it will publish a newsletter, offer an advisory service on the regulatory and technical aspects of re-sale, and set up an information exchange to allow buyers and sellers to broadcast needs and offers.

Membership of Retail Forum costs £140 per user per month, which will cover unlimited use of Octagon's information service.

A system for form filling

RANK Xerox is offering software for dealing with forms on a personal computer. The package includes data entry, form creation and database management.

The company believes that because forms are so widely used – and are still largely paper-bound – the new system, called FormBase, could prove as important as spreadsheets, databases and word processing. According to Dataquest, the market research organisation, 33 per cent of business documents are forms.

Rank Xerox, which had early success in desk-top publishing with its Ventura software, hopes to do the same with FormBase, which it thinks could establish an industry standard.

Faxed junk thwarted

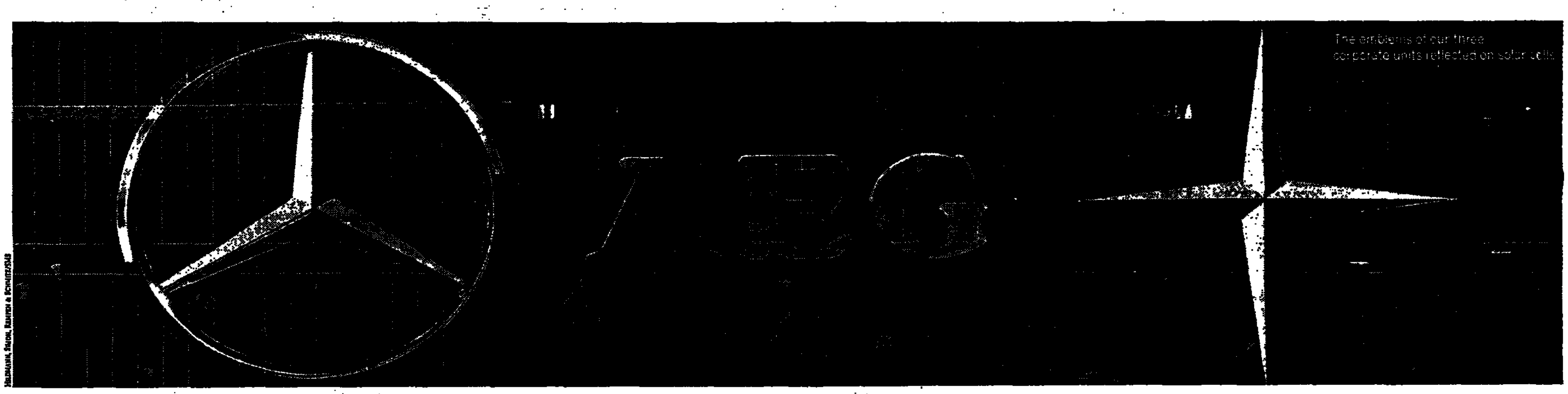
PITNEY Bowes, the office equipment company, has developed software that can counter junk mail sent by fax to its model 8050 machine.

The user decides which sending fax numbers are acceptable and programs them in, locking out the junk transmitters.

CONTACTS: British Coal: London, 235 2020. PA Consulting Group: London, 730 9000. Atelier Henri Chauvet: France, 1 4702 3512. Octagon Telecommunications Services, London, 636 1981. Rank Xerox (UK): 0895 51133. Pitney Bowes: UK, 0279 26731.

“There can be no progress if people have no faith in tomorrow.“

John F. Kennedy



The emblems of our three corporate units reflected on solar cells

In a year marked by the formation of a new corporate structure, Daimler-Benz once again achieved positive results.

In 1988 we strengthened our international lead as the manufacturer of the world's finest cars. We achieved impressive sales figures for our commercial vehicles, heralding a turning point in profit trends. We moved closer to our goal of becoming a major global enterprise in aviation and aerospace.

Everyone at Daimler-Benz takes great pride in what has already been accomplished, and we believe that our record in 1988 offers an outstanding perspective on the Daimler-Benz of today and tomorrow.

In response to global opportunities and the challenges of the future, we have evolved from a world-class automobile manufacturer to an international technology enterprise. Yet our main emphasis remains focused on automobiles and commercial vehicles.

As a holding company with overall managerial control, Daimler-Benz now coordinates, guides and monitors Mercedes-Benz, AEG and Deutsche Aerospace. As a closely-knit group active in a wide range of industries, these three corporate units of Daimler-Benz have demonstrated a capacity to interact effectively. Each unit is thus able to draw on all the expertise of the others, while remaining close to a specialized market.

Daimler-Benz Group	1988	1987
Employees	338,749	326,288
Domestic	268,277	262,658
Foreign	70,472	63,630
Sales (in millions of D-marks)	73,495	67,475
Domestic	29,094	28,064
Foreign	44,401	39,411
Mercedes-Benz		
Passenger Cars	31,833	31,472
Commercial Vehicles	23,063	19,454
AEG		
	13,152	11,480
Deutsche Aerospace		
Dornier	1,889	1,589
MTU	3,087	2,832
Investments	7,007	3,736
Research and Development	4,800	4,100
Personnel Expenses	22,371	20,670
Net Income	1,702	1,782

In the next five years, the Daimler-Benz Group will invest approximately 30 billion Marks in fixed assets and nearly the same amount in research and development. Tomorrow will also see us manufacturing innovative products of the highest quality and exploring promising new ideas.

But even more important than these major investments are the men and women of Daimler-Benz – their experience, their skills, their creativity. It is our people who make the difference – people giving their best for our customers the world over. At Daimler-Benz, we believe in progress because we have faith in tomorrow.

DAIMLERBENZ

Daimler-Benz AG, Mercedesstrasse 136, D-7000 Stuttgart 60, Federal Republic of Germany

ARTS

Arts Week

F	Sa	Su	M	Tu	W	Th
30	1	2	3	4	5	6

June 30-July 6

OPERA AND BALLET

London

Royal Opera, Covent Garden. *Cavalleria rusticana* and *I Pagliacci*, two of the most elderly productions in the Royal Opera repertory, return with Robin Stapleton as conductor and casts including Ghena Dimitrova, Diana Soviero, Vladimir Atlantov and Piero Cappuccilli. Further performances of *Le nozze di Figaro*, in Johannes Schaaf's very successful 1987 production, with substantially the original cast – Thomas Allen, Claudio Desderi, Marie McLaughlin, Carol Vaness – and the original conductor, Bernard Haitink.

Paris

Opéra. *Spectacle Balanchine* alternates with *Don Quixote* in Rudolf Nureyev's choreography after Petipa (47425371).
Grand Palais des Champs Elysées. Paris Opéra Ballet dances *Swan Lake* in Rudolf Nureyev's choreography inspired by Marius Petipa and Lev Ivanov and is followed by performances by the Paris Opéra Ballet School and Leningrad's Vaganova School (45787500).

Brussels

Théâtre Royal de la Monnaie. Mozart's *La Finta Giardiniera* produced by Karl-Ernst and Ursel Herrmann with Ugo Benelli, Joanna Kozlowska and Marek Torzewski. Sylvain Cambreling conducts the Monnaie opera orchestra (Fri, Sun, Tues).

Milan

Teatro Alla Scala. Luca Ronconi's production of Rimsky-Korsakov's *La Fiaba dello Zar Saltan*, conducted by Gennady Rozhdestvensky, and designed by the architect Gae Aulenti. The cast includes Gloria Banditelli, Joseil laLigi, Babara Madra, Stefka Mineva and Carlo Gaifa. Also Gluck's *Orfeo ed Euridice* in Roberto de Simone's production conducted by Riccardo Muti, with Lucia Mazzaria, Valeria Esposito and Elzbieta Ardam (80.91.26).

Rome

Terme di Caracalla. The Rome opera's open-air season opens with Prokofiev's *Romeo e Giulietta*, danced by the excellent Elisabetta Terabust with Raffaele Paganini, conducted by Mario Pistoni. The choreography has been redone by the ballet company's director Mario Pistoni (46.17.55).

Amsterdam

Muziektheater. Double bill with the Vaganova Academy of Leningrad's Kirov Ballet in *Chopiniana* (Fokine/Vaganova/Sergeiev) and the Grand Pas from Petipa's *Paquita*, followed by the School of American Ballet with Balanchine's *Waltz Fantasy* and *Symphony in C* (Fri). The Dutch National Ballet's annual festival: *The Sleeping Beauty* by Peter Wright after Marius Petipa (Sun to Wed).

Munich

Opera. This year's Munich Opera Festival opens with the new production of *Mathis der Maler*, by Kurt Horres. The cast includes Sabine Hass, Doris Soffel, Angela Maria Blasi, Alan Titus, Claes H. Ahnsjoe, Jan Hendrik Rootering, Robert Schunk and will be conducted by Wolfgang Sawallisch.

Stuttgart

Opera. Kathleen Kuhlmann repeats her much praised performance in the title role in *La Cenerentola*. *Der fliegende Holländer* has fine interpretations by Wolfgang Probst, Nancy Johnson and Mathias Hoelle. *Madame Butterfly* features Awilda Verdejo, Carmen Mammoser, Fabio Armiliato and Tero Hannula. *Tosca* with Vasile Moldoveanu, Galina Kalinina and Helmut Berger-Tuna rounds off the week.

New York

New York City Opera. Harold Prince's new production of *Don Giovanni* opens the season Thursday with John Cheek in the title role and Elizabeth Hollque as Donna Anna, Frances Ginsberg as Donna Elvira and Dean Peterson as Masetto. The season includes three other new productions (*Moses und Aron*, *L'Heure Espagnole* and *L'Enfant et Les Sortilèges*) and six major revivals among the 135 performances of 20 operas in 20 weeks. Lincoln Center New York State Theatre (877 4700).
Kirov Ballet. *Le Corsaire* opens the three week engagement that also includes performances of *Sleeping Beauty* and *Giselle* in the first visit of the company in a quarter century. Lincoln Center Opera House (362 2080).
New York Grand Opera. The free fully staged operas in Central Park conducted by Vincent La Selva continue with *Madama Butterfly*, featuring Ingrid Zeldin as Cio-Cio-San and Paul Lyon as Pinkerton. Central Park Bandshell at 72nd St (Thur).

Tokyo

London City Ballet. *Swan Lake* (Mon), mixed bill (Tues). Showa Women's University Hitomi Memorial Hall, near Sangenjaya (475 9999).
Hamlet by Ambroise Thomas (sung in Japanese). Tokyo Globe Theatre (Wed, Thur) (360 1151).

June 30-July 6

EXHIBITIONS

London

The Tate Gallery. Cecil Collins and F.E.McWilliam – retrospective shows side by side of two senior British artists: both shows until July 19; McWilliam sponsored by Ulster TV.
The Barbican Gallery. 100 years of Russian Art – a curious exhibition drawn from private collections in Russia, itself something of a surprise. As a survey it promises much more than it delivers, but in the earlier period of the generations immediately before and after the Revolution of 1917, it has much to offer: until July 9.
The Hayward Gallery. Art in Latin America – a rich and fascinating survey of the painting and sculpture that has come out of Central and South America since the early 19th century, which is roughly the period of the achievement of independence from the Spanish and Portuguese colonial empires. It presents an extraordinary cultural cocktail – political, anthropological and social besides purely aesthetic. Until August 6.
The Royal Academy. The 221st Summer Exhibition of the Royal Academy – the usual gigantic and enjoyable free-for-all of painting, sculpture, print and architecture with nearly 1,300 works on show. Yet, as always, it is different this year for the particular treats it offers for the visitor who has the determination to search them out among the general mass. In defiance of received opinion, the general standard of work is commendably high and this year better displayed than ever. Daily until August 20.

Paris

Musée de la publicité. Alfons Mucha in Ivan Lendl's collections. Some 100 original posters by one of the foremost creators of Art Nouveau are shown. Mucha, catching brilliantly the fin de siècle mood, wreathes his red-headed beauties in flowers, swirling volutes and floating draperies. Having become the favourite artist of Sarah Bernhardt, his posters proclaim with equal success the excellence of biscuits Lu, Perfecta, bicycles and bouillon Maggi. Closed Tue. Ends July 17. 18, Rue de Paradis (Metro Chateau-d'Eau) (42461309).
The Louvre. Les donateurs du Louvre. Aptly, the newly refurbished museum inaugurates the 1,200 square metres of space created underground for temporary exhibitions by expressing gratitude for the generosity of donors throughout its existence. 10pm, all days except Tuesdays. Ends August 21. Entry through the Pyramid, Hall Napoleon, Niveau Accueil.
The Louvre. Michelangelo as draughtsman. Some 80 drawings chosen from great international collections come to Paris after being exhibited in the National Gallery of Art in Washington. Closed Tue. Ends July 31.
Daniel Malingue Gallery. A resolutely modern exhibition with works by Max Ernst, Miro, a suite of Fernand Leger's abstract watercolours and gouaches, Nicholas de Stael's red and blue shining landscape and an orange-coloured sunset. There is an early Picasso still life of apples and pears reminiscent of Cezanne. 26, Ave Matignon (42660033) closed lunchtimes, Sun and Mon mornings. Ends July 8.
Centre Georges Pompidou and La Grande Halle de la Villette. A mammoth exhibition – Les Magiciens de la Terre – is ambitiously subtitled the First World Exhibition of Contemporary Art. Taking four years to prepare and costing FFr30m to stage, the exhibition needs all thespace of the 5th floor of Beaubourg and the Grande Halle de laVillette to accommodate the 100 artists – half of whom come from the third world – whose works span the globe. The exhibition assembles bark paintings by Australian aborigines, a house repainted for circumcision ceremonies in South Africa, effigies of lions and sorcerers from Benin and decorated coffins from Ghana. Even the western artists were chosen according to their relationship with the Third World. Centre Georges Pompidou (42771233) and Grande Halle de la Villette, 211 Ave Jean-Jaures, Metro Porte-de-Pantin (42497722). Both exhibitions closed Tue and end August 14.
Galerie d'Art Saint Honoré. 16th and 17th century Flemish paintings. Amid the exuberance of flowers and fruit typical of Flemish still lives, a painting totally different in spirit is the central piece of the exhibition. A young woman holding a dark red carnation gazes at us with such gravitas that the symbols – the prayer book that of piety, white linen of purity and a golden chain round her neck of fidelity – become secondary. Painted in 1530 by Bartholomew Bruyn the elder, the work exemplifies the artist's gift for portraying the sitter's inner self. 267, Rue Saint-Honoré (42601503). Closed Sat, Sun and lunchtimes. Ends July 13.

Amsterdam

Bonnefanten Museum. The finest of the early Italain paintings in Dutch collections have been gathered together in a show containing works by Duccio, Guido da Siena, Filippino Lippi, Bellini and Carlo Crivelli. Ends July 9.

Brussels

Palais des Beaux-Arts. The Credit Communal Collection of Belgian Art from 1860 daily ends July 30.
Musée d'Art Moderne. Retrospective of the Belgian abstract artist Victor Servranckx (1897-1965). Closed Mon. Ends July 30.
Bibliotheque Royale Albert I. An exhibit to celebrate the library's 150th anniversary. Open daily ends July 15.
Centre Culturel le Botanique. A sense of catastrophe – art in the 1980s shows works of American and European artists. Closed Monday ends August 13.

Frankfurt

'Je Suis le Cahier', the sketchbooks of Picasso. This exhibition of 40 sketchbooks and around 200 paintings, organised by the New York based Pace Gallery and sponsored by the American Express company, will have its second stop here in Frankfurt on the European tour. These fascinating sketchbooks, owned by Picasso's family have never been shown in public before. All styles and periods in his working life are represented here. These books cover around 70 years of his life; his start in Spain of the turn of the century, the cubism period before the First World War, and followed by the period from 1920 to 1965.

Bonn

Kunsthalle am August-Macke-Platz, Hochstadenring 22. Centres, Residences and Metropolis in German History. This interesting exhibition, organised by Bodo-Michael Baumunk, has about 1,500 pieces on loan from private collections and museums. It is the government's contribution to Bonn's 2,000th anniversary. The ground floor of the Kunsthalle, with all walls painted black for effect, offers a view of important paintings, silver items, signets and personal distinctive belongings of German politicians, from the Middle Ages up to the present. Aachen is represented as the seat of Charlemagne, Nuremberg as the Emperor's city, Regensburg as the town of the everlasting diet and Frankfurt as the seat of Germany's first national parliament. There are also portraits by Kokoschka of Konrad Adenauer, Theodor Heuss and Ludwig Erhard. A reconstructed model shows the original layout of Berlin's famous Wilhelmstrasse, the location of the Prussiangovernment and empire. A constructed steel bridge leads the visitor into the postwar period. Here, can be traced the first years of the Federal Republic of Germany and its capital Bonn. Sketches and models for the Bundestag are on display as well as photographs of the first German Chancellor, Konrad Adenauer, who strongly influenced the political postwar development. Ends August 20.

Baden-Baden

Kunsthalle, Lichtenthaler Allee 8a. A retrospective of Jean Cocteau (1889-1963) to commemorate the 100th anniversary of Jean Cocteau's birth, the Kunsthalle in Baden-Baden presents the most extensive show of his work ever with around 500 exhibits. The exhibition also tries to show the different talents of the artist as poet, dramatist, essayist, painter, sculptor, actor, jazz composer, choreographer, stage setter, film and theatre producer. It is divided into film, theatre, ballet, literature and painting. Ends July 30.

Bremen

The Kremlin Gold. The exhibition, jointly organised by the Bremen Uebersee Museum and the Moscow Kremlin Museum, will coincide with Mr Gorbachev's first visit to Germany this week. This presentation of around 80 pieces of Russian goldsmith's art covers the early Byzantine period through to the beginning of the 20th century. It shows the different styles of the goldsmith's art such as filigree and enamel work in the 15th century, colourful decorations with precious stones in the 17th century, followed by the European influence of the 18th century. Bremen Uebersee Museum, Bahnhofsplatz 13. Ends August 13.

Stuttgart

Staatsgalerie, Konrad-Adenauer-Str. 30-32. Salvador Dali: (1904-1989). Stuttgart presents the biggest Salvador Dali retrospective since his death earlier this year, to honour him on his 85th birthday. 350 works from all periods of his working life and from several collections, museums, galleries, from all parts of the world, except the Teatro-Museo in Figueras, his home, are to be seen. The exhibition, organised by Mrs Karin von Maur, who tries to explain how Dali's works can combine with the post-modern period, concentrates on his works from the 1930s (surrealism). Among them are pictures which have not been shown in public before. Ends July 23.

Vienna

Messepalast. A thoughtful exhibition, called the History of the Modern Mind, deals with the works of Sigmund Freud as well as the plethora of artists who grew up in Vienna at the turn of the century. Ends August 6.
The Benedictine Monastery in Melk, an hour's drive from Vienna, celebrates its 900th anniversary. Besides a fascinating collection of paintings, books and later, newspaper cuttings, the Abbey boasts the finest baroque architecture in this part of Europe. Until November 15.
Kunstforum. Egon Schiele und seine Zeit. A marvellous exhibition – notwithstanding the cramped space – comprising hitherto unseen works by Schiele. Also Gustav Klimt. The collection was built up since the Second World War by Rudolf Leopold. Whether or not these paintings remain in the country will depend on the Austrian Chancellor's decision to buy them. Ends July 23.
Albertina. Try not to become annoyed with the depressing layout, the appalling lighting and the uninterested staff when seeing a wonderful collection of watercolours and drawings by Austrian artists. Included are works by George Eisler and Alfred Hrdlicka. Ends July 16.
Secession. An exhibition on Austrian interior design should not be missed. Some of Austria's younger generation are trying to continue the tradition of the fin-de-siècle movement. Others such as Adolf Krischanitz, who specialises in tables, has gone his own way. Ends July 16.

Rome

Villa la Farnesina, Via Della Lungara 230. Drawings from the Venetian and Lombard schools: 16th to 18th centuries. About 100 works from the National Graphics Institute's collection. Particularly interesting is the Venetian section, with nude studies by Tintoretto, works by Domenico Campagnola, a large group of sketches by Palma di Giovane, and two views of Rome by Canaletto. Make a point of seeing Rapahel's frescoes on the ground floor of the villa on the way out. Ends July 16.
Galleria Nazionale d'Arte Moderna. The Sonnabend Collection contains a little of everything, from pop-art with some of the best-known works of Warhol, Lichtenstein, Jim Dine, followed by examples of American minimal art (Flavin, Judd, Morris), to conceptual art and *Arte povera*, with works by Gilbert and George, Paolini, Merz, Pistoletto and Kounellis, ending with some curious examples of German neo-expressionism, until Oct 2.
Museo Napoleonico. Eighteenth-century Roman Theatre and Carnivals. Life was anything but comfortable for impresarios under the oppressive papacy of Pius VI, with ruin continually staring them in the face through forced closure by unpredictable papal censors. This absorbing exhibition covers the years 1775, when Pius VIth's long reign began, to 1799, and attempts to show how the conflicting influences of the papacy and the revolution in France affected the Roman theatre. The exhibition opens with a coloured lithograph of the Pope's triumphal procession, immediately after his election, alongside the edict which condemned to death the supposed author of a tasteless masque written for the occasion (the true author of which was said to be Prince Chigi). The Roman cultural scene was lively but frivolous, ballet and spectacular theatre in general being much preferred to classical plays or opera. Included in the exhibition are numerous etchings of stage sets and elaborate papier-maché architecture, built for carnival masques and later burnt, portraits ofcontemporary composers such as Cimarosa and Paisello, and an enchanting Perseus and Andromeda by the French sculptor Chinard. Ends Sept 30.

Venice

Museo Correr. French impressionists from the Mellon collection at the National Gallery of Art in Washington: more than 40 works, among which are delights such as Courbet's seascapes, Seurat's La grande Jatte, and Renoir's Madame Monet and Son. Ends Sept 4.
Palazzo Grassi. Italian Art: 1900-1945. A much-amplified exhibition covering a briefer period than did the recent show at the Royal Academy in London, organised again by German Celant, with the director of Palazzo Grassi, Pontus Hulten. An attempt is made to put the works into a clear political and social context, emphasising links with contemporary literature, music and cinema. The exhibition ends with two blown-up stills from films by Visconti and Rossellini. Ends Nov.

New York

Whitney Museum. The 65th in the long series of Annuals and Biennales features a large group of lesser-known artists among the 80 represented on three floors of galleries. Ends July 9.
Metropolitan Museum of Art. *Goya and the Spirit of Enlightenment* explores 160 of the artist's works in relation to his impact on contemporaries and the rationalist modernisation of Spain. Ends July 16.
Guggenheim Museum. More than 100 paintings and drawings by contemporary Austrian artist Arnulf Rainer reveal the unique imagery of a mystic vision translated into an abstract idiom. Ends July 9.

Washington

National Gallery. More than 400 images are part of a massive retrospective of the 150 years of photography, here represented by Alfred Stieglitz, Walker Evans, Laszlo Moholy-Nagy among dozens of others. Ends Aug 13.

Chicago

Art Institute. Master drawings from the Teyler Museum, the oldest in Holland, include nearly 100 works of two centuries by Michelangelo, Raphael and Rembrandt.
Art Institute. Two years after his death, Andy Warhol continues to make news with his new diary; even his work retains surprising freshness amid the variety that extends far beyond familiar images like his Marilyn Monroe and Campbell Soup tins. Ends Aug 13.

Tokyo

National Museum of Modern Art, Takebashi. Tatsuo Takayama retrospective. Although his early works show the influence of Gauguin, Takayama (born 1912), is noted as one of the few Japanese painters who have managed to achieve harmony between Japan's artistic traditions and the present. Closed Mondays.
Nezu Museum. Ceramics from the museum's permanent collection. Not only is this one of the finest private museums in Tokyo, but it also has a superb semi-wild garden which offers a haven of tranquillity in the heart of the metropolis. Closed Mondays.

June 30-July 6

THEATRE

London

Much Ado About Nothing (Strand). Alan Bates and Felicity Kendal lead strong ad hoc company in turnabout fortnightly rep with Chekhov's early, astringent Ivanov. Not to be despised (836 2660).
As You Like It (Old Vic). Yet more non-RSC Shakespeare, with an outstanding Rosalind from Fiona Shaw in eclectic, enjoyable Tim Albery revival. Ambitious designs (928 7616, cc 261 1821).
The Black Prince (Aldwych). Ian McDiarmid gives the performance of a lifetime in Iris Murdoch's distillation of her own Hamlet novel. Witty black farce, vitriolic and entertaining (836 6404).
Ghetto (Olivier). Brilliant National Theatre version of Joshua Sobol's Israeli play about the last days of the Vilna ghetto and its resident theatre company. Moving and shocking. Nicholas Hytner directs. July 7-10 (928 2252).
Single Spies (Queen's). The highlight of Alan Bennett's double bill is a comic confrontation between Prunella Scales as Her Majesty the Queen and Bennett himself as Anthony Blunt in the royal picture gallery. Clive Francis plays Guy Burgess in a rehash of Bennett's fine TV film. (734 1166).
M. Butterfly (Shaftesbury). Anthony Hopkins as the tortured diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York. (379 5399).
Brigadoon (Victoria Palace). 1947 Lerner and Loewe "heather-scented" Scottish fairytale hit is handsomely revived and well sung, less frail than expected (834 1317, cc 836 2428).
The Vortex (Garrick). Maria Aitken and Rupert Everett in brilliant reappraisal by Philip Prowse of Noel Coward's 1924 study of drug addiction and mother fixation. Mannered, excessive, beautifully costumed. A must for yuppies (379 6107, cc 741 9999).
Henceforward (Vaudeville). Martin Jarvis and Joanna van Gyseghem in bleakly funny and experimental Alan Ayckbourn comedy of future shock and strained marriage. A tale of obsession, devotion, computer music, women as robots, gangs on the streets and a tug-of-love (836 9987, cc 741 9999).
Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. (839 5972).
Ivanov (Strand). Alan Bates and Felicity Kendal lead a new ad hoc classical company in Chekhov's first play, translated by Ronald Harwood, directed by Elijah Moshinsky. Bates interestingly renders the critical suicide a Simon Gray character (836 1660).

Hamburg

The World's Theatre. The international festival from June 16 to July 9 takes place in Hamburg, as part of the town's 800th anniversary of its harbour. Organised by the Thalia Theatre with the help of the International Theatre Institut, some 34 pieces from 17 countries will be performed, among them East Germany, the Soviet Union, Sweden, South Africa, France, the USA, Britain, Germany and Italy. The idea for the festival came from former theatre director Ivan Nagel, who formed the Theatre of Nations in 1979. Richard von Weizsäcker, West German President, is chairman of this year's festival.

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).
Twelfth Night (Delacorte). Jeff Goldblum heads the cast in this free outdoor performance in Central Park that begins the New York Shakespeare Festival's nearly 30th year of culture by moonlight. Director Harold Guskin has elegantly set the comedy in designer John Lee Beatty's version of turn-of-the-century Monaco. 81st Street entrance on the west side. Ends July 23.
Lend Me a Tenor (Royale). A sprucing up in the set of a decaying town's big time opera ambitions makes a transatlantic hit of this farce, first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200).
Shirley Valentine (Booth). Pauline Collins brings her West End triumph to Broadway in Willy Russell's amusing and touching story of a Liverpool woman's awakening in the Aegean Sea. Simon Callow again directs without smoothing any of the Northern English edges that retain an authentic touch.
Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including On the Town, West Side Story and Gypsy. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.
Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.
Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).
A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).
Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).
Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).
M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).
Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Washington

Into the Woods (Kennedy Center Opera House). Stephen Sondheim and James Lapine update favourite fairy tales with a contemporary plot and characteristically challenging songs. Ends July 16 (254 3770).

Chicago

A Funny Thing Happened on the Way to the Forum (Goodman). Stephen Sondheim's most popular musical, for which he wrote both music and lyrics, stars Louis DiCrescenzo as Pseudolus in Burt Shevelove and Larry Gelbart's adaptation of Plautus. Ends Aug 6.
Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy Loudon, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).
Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).
Les Miserables (Auditorium). The international spectacle has settled in for a long stay by the Great Lakes (922 2110).

Tokyo

Kabuki. Both the matinee and evening performances at Kabuki-za (541 3131) feature the prodigious Ishikawa Ennosuke, whose barnstorming acting style, spectacular aerial stunts and costume quick-changes have attracted a younger audience to kabuki, but also reflect its roots as a truly popular theatre. At 11am: a mixed programme of four short plays. At 4.30pm: Hitori Tabi 53 Tsuki, a colourful tale of inheritance and vendetta which includes a fight beneath a "real" waterfall (ends July 27). At the National Theatre (265 7411): *Narukami*, noted for its curious mixture of bawdiness and Buddhism (ends 25 July). Both theatres have informative English language programmes and earphone guides in English.
Les Misérables. (Imperial Theatre) Strongly-cast revival (in Japanese) of the stirring musical of the storming of the Paris barricades (201 7777).
The Phantom of the Opera. Nissei Theatre (045 903 5701). This excellent production (in Japanese) is a carbon copy of the London original.

Ruskin in focus

Susan Moore reviews two exhibitions currently touring the country

Some exhibitions speak for themselves, the point of others is revealed by careful reading of the catalogue. The Whitworth Art Gallery's ambitious "Ruskin and the English Watercolour", currently on tour in Bath, falls into the latter category. Unfortunately, its thesis is more interesting in print than it looks on the walls.

The show sets out to examine the Victorian critic's attitudes to the art of watercolour, through his own writing and drawing (he was a prolific draughtsman, filling over 2,000 sheets), and through the works of the artists he championed, collected or commissioned. It deals with Ruskin the educationalist and Utopian social reformer, and Ruskin the conservationist. Some 130 watercolours by over 30 artists are brought to witness.

The exhibition organisers set themselves a Herculean task, given the complexity of Ruskin both as a personality and as a critic. For every statement made there is another to contradict it. He even wavered in his advocacy of watercolour as a medium: in 1870 he warned his students at Oxford that "its pleasant slightness and plausible dexterity divert the genius of the painter from its proper aims".

What has never been easy to understand, given his predilection for the meticulous detail and precision of Samuel Prout and William Henry Hunt, is his championing of Turner's very different "truth to Nature". He could describe J.D. Harding as "after Turner, the greatest master of foliage in Europe", or Hunt as "the greatest living colourist" or "the best painter of still life that ever existed", and yet overlook the incomparable talent of John Constable. More extraordinary still – here put down to paedophile tendencies – is the great apologist of Turner championing Kate Greenaway and Helen Allingham in the 1880s.

Ruskin had sprung to the defence of the Pre-Raphaelite Brotherhood, although not one of its members were landscape painters. He avidly collected Rossetti drawings, even though they were far removed from his stated ideals. He may have alerted the public to the fragility of watercolours, and yet Arthur Severn's splendid view of Ruskin's bedroom at Brantwood shows the critic's favourite Turners hanging on walls exposed to bright sunshine, and above a burning coal fire.

There is no doubt that Ruskin sought by his writing and teaching to influence the course of Victorian art, particularly by guiding young protegés such as John Everett Millais and John Brett. The extent to which he succeeded is a question raised but left in the air.

Too much is attempted by too few watercolours in this exhibition. The result is confusing and ultimately disappointing, not least because of the uneven quality of the exhibits. Turner's genius soars in stature in the absence of serious competition – the show is worth visiting to see this group at least. Ruskin's own efforts seen among this dimly lit display seem more often indifferent than sparkling.

That is not the case with the watercolours currently on view at the Ashmolean. This straightforward display proves far more eloquent in its modest aims, and does greater justice to Ruskin as a draughtsman. The drawings are glorious and the theme coherent, even without a catalogue.

Ruskin was the first Slade Professor at Oxford, from 1869 to 1878, and was re-elected again in 1883. In 1875 he endowed a Drawing Mastership, and added to the Turner watercolours which he had already donated to the University Galleries a large number of drawings by himself and others, including those devised for illustrating his lectures. Classified into four sections, they were to form a study collection for the teaching, both practical and critical, of gentleman and artisans, the latter at night school.

From this cache, over 30 watercolours have been selected and arranged thematically to illustrate his various scientific and artistic preoccupations. Nicholas Penny's accompanying colour booklet provides an introduction to each section and a running commentary through the drawings, which indictes, where possible, the educational value he attached to them.

"Stone Pines at Sestri" by John Ruskin

The earliest pencil drawings, picturesque views of Italian towns, show the influence of professional topographers such as Prout and David Roberts. They give way to atmospheric watercolour sketches of Alpine scenery inspired by Turner. Ruskin copied Turner's trees as exemplars of grace and truth, and of the study of light and shade. His stone pines at Sestri, a homage to Nature, acquired educational value as executed with "utmost possible speed consistent with care."

His lifelong fascination with the natural world, scientific rather than artistic in its origins, is revealed throughout. Here are carefully observed studies of gneiss rock, the plumage of birds, and the curvature of boughs. Most spectacular of all are the rapidly executed studies of the sky at dawn.

Nature tends to be seen through the eyes of great masters. It is also deemed as appropriate natural ornament for architecture. The show ends on a note of triumph with a series of brilliant studies of the "stones" of Lucca, Verona, Florence and Venice.

Ruskin's Drawings continues at the Ashmolean Museum in Oxford until September 10. *Ruskin and the English Watercolour* remains at the Holburne Museum, Bath, until July 30, and opens at the Bankside Gallery, London, August 10-September 10.

Golem.

ALMEIDA THEATRE

The 1989 Almeida Festival has saved its boldest achievement for last. The latest operatic world première to be presented here is *Golem*, music by John Casken, author of his own libretto in collaboration with the show's producer (and Almeida director), Pierre Audi.

Over the last few years the annual Almeida productions – Vivier's *Kopernikus*, Rihm's *Jakob Lenz*, Finnissy's *The Undivine Comedy* – have provided London with some of its most exhilarating adventures in avant-garde opera, exploring styles, ideas, and aims of lyric theatre generally avoided by our more settled music-theatre institutions. With *Golem* the adventure continues: the work, lasting one-and-three-quarter hours without interval, is by no means untaxing, and the Almeida production does nothing to make its rough places plain, yet there is an excitement about the experience, derived above all from Casken's surgingly vivid and powerful score, that holds the spectator intent and gripped for its full length.

The libretto, an original creation, draws its subject from Jewish cabalistic legend: the figure of clay infused with life by the Rabbi who has tapped esoteric sources of knowledge; the servant-protector who outgrows his decreed functions and must ultimately be destroyed by his creator. It was the 16th-century Rabbi Loew of Prague on whom the legend particularly focussed, and in Casken's opera the leading character, Maharal, takes his name from a Hebrew acronym of Loew's.

Casken's narrative layout and development are not simple. Many influences (including *Frankenstein*, the legend of Prometheus and *Dr Faustus*) beyond those of the obvious sourcebooks of Jewish mysticism have been fed into the three acts, which treat the confrontations of Maharal, the Golem, and the small Jewish community partly in flashback (the first act) and partly in discontinuous forward movement, reaching a climax in the Golem's murder of one of the townspeople and then his own destruction. The verbal phrases for the cast of eight are sometimes over-ambitiously loaded (particularly when a single voice is framed or shadowed by five choral ones), and quite often difficult to make out as sung; but the libretto structure is fastened to a clear dramatic conception, and Casken's score articulates it with extraordinary resourcefulness and authority of style and musical gesture.

This is a first opera that conjures up its own universe ofsound, its own distinctive theatrical ambience – qualities by no means to be relied *upon first time round even* from a composer like Casken, whose song cycles (notably *Ia Orana, Gauguin* and *Firewheel*) have demonstrated a peculiar and personal vein of dramatic lyricism. The use of a small orchestra (disposed spatially in the Almeida, and conducted by Richard Bernas with his familiar complete mastery of forces) and of precise taped insertions trains the ears on the dramatic themes; *Casken is unafraid of* flowering into beautiful vocal and instrumental lyricism at nodal points, and able to build a violent scene purposefully to its peak. His musical language, which often suggests tonality without specifying it, is accessible – not mindlessly so, but because it is brought into being by a genuine, and naturally direct, communicative urge.

I'm not persuaded that the same sort of urge has inspired Audi's production. In common with all his directorial work in this theatre, it looks quite wonderfully beautiful (the exquisite spare-shaped set by Kyoji Takubo requires, for some reason, the removal of the audience seats – and comfort! – and the wrapping of the entire auditorium in white ground-sheeting), and unfolds in gestures and actor-placements that command their own stylized eloquence. Is it hopelessly, feebly reactionary, though, to regret that so much of the producer's invention has gone directly against the specifications and, indeed, the narrative sense of the libretto? Occasionally – as in the final scene, where violence breaks out and faces the Maharal, its real initiator – one gains a striking reflection of the opera's inner life; more often, the overall impression is that the producer persists in adding a layer of obfuscation, the very last thing a complex new opera needs.

All that said, the spell cast by the performance survives passing puzzlements and irritations (and, of course, nearly two hours of leg- and backache). No praise can be too high for the cast, all of whom have absorbed themselves deep into the fabric of the music and the drama; such vital ensemble work is rare and splendid, and Audi deserves, surely, a large share of the credit for masterminding it. Adrian Clarke (Maharal) and John Hall (Golem), compelling in every word, note and gesture, make outstanding contributions, but all the company deserves to be named – Patricia Rozario, Mary Thomas, Christopher Robson, Paul Wilson, Paul Harrhy, and Richard Morris.

Max Loppert

Alastair Muir

John Hall as Golem

Shirley Valentine

DUKE OF YORK'S THEATRE

Shirley Valentine has come a *long way since she took her* first bow at the Liverpool Everyman in March 1986. Noreen Kershaw was a superb, aggressive and vindictive Shirley, sticking up for the women of Liverpool in her own back yard. Then Pauline Collins touched new depths of emotion and poetry in London before moving on in triumph to New York, a Tony Award, the film. This was Beckett with jokes, and a career transformation for Miss Collins almost as cataclysmic as Shirley's discovery of the clitoral orgasm on a Greek island.

Now Hannah Gordon, vulnerable, twinkling, a mite too genteel, has brought Shirley back to London while simultaneously transporting her to Glasgow. I am not at all sure about this. For Shirley's unseen chauvinist husband Joe to suffer from culture shock on a trip to Chester is quite different from taking the train to Edinburgh. The Isle of Man does not mean the same to Glaswegians as it does to Liverpudlians. Nor does the Albany in Glasgow, as a hotel, have an atavistic resonance comparable to the Adelphi's in Liverpool, where Shirley meets the old school chum who is now a high class hooker.

These are details, but Willy Russell is nothing if not a local playwright in a richly poetic and topographical sense. The monodrama is also fuelled by a

Alastair Muir

Hannah Gordon

particular Merseyside brand of button-holing, vaudevillian chattiness which is not in the Glaswegian temperament. The school nativity play anecdote, for instance, is much less funny in Glaswegian, and the Adrian Henri gag is meaningless. Whereas Pauline Collins, confiding to the kitchen wall, and us, over several sips of white wine, was a natural theatrical character, Hannah Gordon presents a portrait of a woman suddenly encouraged to confide.

The difference is crucial and damaging to the central idea of Shirley's discovery of her true social and sexual identity. One can only presume that the new director, Richard Olivier (Lord Olivier's son), knows nothing at all about Liverpool or indeed this dramatist. Nonetheless, Miss Gordon rises magnificently to the second act challenges of windswept, sea-washed fulfilment on Bruno Santini's rocky retreat and rides with glowing confidence through the incipiently mawkish terrain of tapping in to all that Unused Life.

Shirley Valentine is the best feminist play of the 1980s for the simple reason, as I said in Liverpool, that it does not conform to a metropolitan, po-faced vegetarian view of feminism. Russell's unerring ear for authentic working class speech and humour, allied to an optimistic belief in the ability of people to transform their own lives, given half a chance, explains why he enjoys the huge popular appeal denied to Royal Court dramatists.

For all my cavils, the experience remains joyous and uplifting. Which is more than can be said of the Duke of York's itself, the current owners, Capital Radio, are allowing this jewel-box theatre to slide into a disgracefully shoddy state of tattiness and front-of-house ineptitude. Save the Rose, by all means, but save the Duke of York's circle bar, too!

Michael Coveney

Young Musicians Symphony Orchestra

FESTIVAL HALL

The YMSO is a training orchestra, a very good and very ambitious one; and no doubt Richard Strauss's *An Alpine Symphony*, the main work in their programme on Wednesday night, provides terrific practice. It was not altogether kind, perhaps, to make the audience first practise listening to Strauss in fullest cry with his *Festliches Praeludium* – it was a sticky evening anyway, and two helpings of earshattering din made a heavy test. We hadn't even the reassurance of safety in numbers, for the transport strike left the concert with a sadly reduced house.

At least the dreadful Prelude (efficiently delivered, but certainly as lamentable a piece as Strauss ever wrote) gave the massive brass team something extra to do. If the conductor James Blair divines some hitherto unrecognised virtue in the music, the secret was not imparted. By comparison the *Alpensymphonie*, composed at the same time, sounded appealingly varied and inventive – and maybe that was the plan.

It is a long trek up Strauss's Alp and down again, but to the last the young players took all their clamorous opportunities with confidence. The gentler solos did the first-desks professional credit. In the gigantic tuttis (with organ and Wagner tubas too) the trumpets seemed just slightly thin-voiced, unlike the smooth horns and bold trombones: a wide-bore trumpet-tone going out of fashion? Blair rendered the odder chromatic passages lucid and even subtle, by no means a common feat in this piece. Throughout, Strauss's broad splashes of colour were made to shine, and sometimes to glow. If we missed anything, it was only an occasional pause for breath on the journey: Blair marched the orchestra through the earlier portion, at least, with a vigorous forward drive.

In between came Strauss's Horn Concerto no. 1, cool relief in the circumstances, for all its extrovert yodelling. Correctly reduced, the band showed that chamber-scale lightness was well within their range. The soloist was Michael Thompson, who offered a model of polished ease (deceptive, surely: the piece is notoriously taxing) and good humour. The grace of his phrasing was no less striking than his fluency in sweeping up and down the whole register of the instrument: the pair of supporting horns will have been paying close attention. A special word of praise for the leader of the cellos, whose accompanying solo work caught one's ear at once; but the entire performance was very taking.

David Murray

Margaret Price

WIGMORE HALL

The recordings of Schubert and Schumann Lieder that Margaret Price made for the young Orfeo company have won for themselves a lasting reputation, not least in Germany itself. There the high esteem in which they are regarded is due not only to their musicianship, which we can all share, but to what I am told is an idiomatic way with the German language that not even a native speaker can fault.

At Wednesday night's Wigmore Hall recital such praise was easy to understand. Since she first came to notice as a recitalist, Price may have lost some of the shine on the tone for which she was renowned (a song like "Im Freien", which I recall in a radio broadcast, has a softer glow these days, and the young nun of "Die junge Nonne" has become rather a grande dame). But the remarkable feature is how pure an instrument for Schubert this voice still is.

In time the artistry has also deepened. After Janet Baker gave a particularly unforgettable rendering of "Der Unglückliche" at the King's Lynn Festival, I felt it unlikely I would hear another singer to equal her, but in their own way this partnership of Margaret Price and Graham Johnson, an exemplary accompanist, came as close as any. There was not that sense of emotions about to rend the singer from within, which made Baker so involving, but the song was grandly voiced, strongly felt.

After the interval came Schumann and the Op.39 *Liederkreis*. The loss of the young Price's lightness and spontaneity was arguably more of a *point against in this half*. But it seems unreasonable to complain when so much was still so ravishingly sung and so fully considered, somewhat after the manner of other, more mature Lieder singers – Schwarzkopf and Pears, for example – who have sung the songs of this cycle at the Wigmore in the past.

With this artist, the comparisons have to be at the highest level. And where pure musicianship is involved it is difficult to make any at all: the slow, rising theme of "Mondnacht," a test point where even the best technicians come to grief, was faultless in its poise, its line, its intonation and its shimmering, nocturnal beauty.

Some 15 years ago we were saying Margaret Price was in her prime. On this showing she still is, a marvel of which we should take full advantage.

Richard Fairman

ARTS GUIDE

June 30-July 6

MUSIC

London

Viennese Evening, with the Johann Strauss Orchestra, directed by John Bradbury, with Ann James (soprano). Strauss, Lehár, Suppé. Royal Festival Hall (Fri) (928 8800).

London Concert Orchestra, conducted by Michael Reed, with Sally Ann Bottomley. Tchaikovsky, Sibelius, Rachmaninov, Dukas, Léhar, Elgar and Ravel. Barbican Hall (Fri) (638 8891).

London Symphony Orchestra, conducted by Mstislav Rostropovich, with Midori (violin). Glinka, Tchaikovsky, Shostakovich. Barbican Hall (Sat) (638 8891).

Royal Philharmonic Orchestra, conducted by André Previn, with chorus and soloists. Beethoven. Royal Festival Hall (Sat) (928 8800).

Summer festivals in France

Orangerie de Sceaux in the Paris region, July 22 - Sept 3 (46600779).

Saintes in the West, July 7 - 16 (46925135).

La Chaise-Dieu in Auvergne, Aug 23-30 (71000116).

Beaune in Burgundy, June 30 - July 22 (80222451).

Montpellier, July 11 - Aug 2 (65528383).

Saint-Jean-de-Luz, Aug 30 - Sept 18 (59260316).

Guethary Piano Festival, July 2 - July 12 (59265650).

Provence, Cote d'Azur, July 7 - Aug 8 (90842424).

Avignon, July 12 - Aug 3 (90862443).

Aix-en-Provence, 10 - 30 July (42233781).

La Roque-d'Anthéron, Aug 1 - 23rd (42505115).

Menton, Aug 5 - 31 (93575700).

Brussels

Vadim Repin (violin) winner of Queen Elisabeth violin contest with Koen Kessel (piano) playing Bach, Brahms, Wieniawsky. Corroy - Le - Chateau (Fri) (02-358 1772).

Jeannette Thompson (soprano) accompanied by David Miller (piano) performing works of Bach, Bernstein, Handel, Schumann, Verdi. Corroy - le Chateau (Sun) (02-358 1772).

Antwerp

Monnaie Symphony Orchestra and Chorus conducted by Sylvain Cambreling performs Schumann's scenes from Goeth's Faust with Jose Van Dam, Harald Stamm, Nancy Gustafson. De Singel (Sat).

Bad Kissingen Summer Festival

June 23 to July 16.

A local politician proposed an "East meets West" festival because of Bad Kissingen's closeness to the East German border. The fourth festival concentrates on Russia. Amon those appearing are the Dresden Philharmonic Orchestra, Dresden Baroque Soloists, Georgian Chamber Orchestra, Moscow Radio Orchestra and the Rascher Saxophone Quartett. Soloists include Heinrich Schiff, *Vladimir Krainjev*, Vladimir Ashkenazy, Pamela Coburn, Andreas Schmidt, Juri Bashmet, Dmitri Sitkovetsky, Siegfried Jerusalem and Waltraud Meier. There are two operas, Mozart's *Die Entführung aus dem Serail* and Handel's *Rinaldo*.

Vienna

Piano Recital, Walter Klein, Mozart, Chopin, Janacek. Palais Schönbrunn (Sat).

Bell'Arte Ensemble, conducted by Herbert Weissberg. Mozart, Rossini, Johann Strauss, Lanner. Palais Ferstel (Sun).

Wiener Symphoniker, conducted by Serge Baudo, Paganini, Debussy, Roussel. Arkadenhof (Tues).

Wiener Mozart Orchester, conducted by Konrad Leitner. Mozart. Konzerthaus (Wed).

Wiener Symphoniker, conducted by Dimitri Kitaenko. Fusel, Haydn, Tchaikovsky. Arkadenhof (Thur).

Rome

Campidoglio. Open-air concerts by the Accademia Nazionale di Santa Cecilia conducted by Lorin Maazel (Wed, Thur) (6541044 or from the Campidoglio).

Villa Medici. Roma-Europa festival. Pierre Boulez conducts the Orchestre National de France playing Varese, Schoenberg, Webern and Stravinksy (Fri) (4744776 and 6544601/2).

Amsterdam

Radio Philharmonic Orchestra with choirs and soloists conducted by Edo de Waart. Wagner: *Götterdämmerung* (Sat matinee). Concertgebouw.

Kwansei Gakuin University Symphony Orchestra, Masaki Nakata conducting with Frank van de Laar (piano). Schumann, Brahms (Tue) Concertgebouw.

Rubinstein Trio. Chopin, Schubert (Tue) Concertgebouw.

Royal Concertgebouw Orchestra and Horacio Gutierrez (piano) conducted by Neeme Jarvi. Svendsen, Prokofiev, Reger (Wed) Concertgebouw.

The Hague

London Classical Players under Roger Norrington, with Melvyn Tan (piano). Schubert, Chopin, Mendelssohn (Fri). Philipszaal.

Rotterdam

Emmy Verhey (violin) and Alan Weiss (piano). Beethoven (Fri) (413 2490) Doelen.

Chicago

Ravinia Festival. Nexus Percussion Ensemble. Reich, Tamitsu, Harrison, Cahn, Wyre, Cage (Mon); Artie Shaw Orchestra conducted by Dick Johnson. Gershwin, Kern, Berlin (Tue). Highland Park (728 4642).

Tokyo

Yomiuri Nippon Symphony Orchestra, conducted by Jan Pascal Tortelier, with Noriko Ogawa (piano). Debussy, Prokofiev, Strauss. Tokyo Bunka Kaikan (Tues)(270 6191).

Peter Dvorsky (tenor), with Shinobu Satoh (soprano) Tokyo Philharmonic Orchestra, conducted by Ondrej Lenard. Suntory Hall (Tues) (235 1661).

Evgeny Nesterenko (bass), with Irina Ripchevskaya (piano). Moussorgsky, Tchaikovsky, Rachmaninov, Verdi. Suntory Hall (Wed) (505 1010).

SALEROOM

Another hit for Roger Rabbit

Sotheby's, which holds sway over the post-war and contemporary art market in London, registered another enormously successful sale yesterday. Some £10,413,700 changed hands, a record for a contemporary auction in Europe, with only 4 per cent failing to sell.

Of the strong field of works by Jean Dubuffet, his 1963 "Le principe dansant de l'Hourloupe" drew £858,000 from London dealers Waddington. Its estimate was set at £180-220,000. The earlier "Vivre et coirier" realised £429,000. A very mixed media collage by Alberto Burri sold for a record £440,000, one of 14 auction records chalked up.

Three or four years ago, the boom was in Cobra art. Last year the focus moved to what one might call the Second School of Paris. This sale saw records set for Riopelle, the vast "L'Autriche", £308,000, a calligraphic Hartung, £286,000, and a Poliakoff, £253,000.

The contemporary English contingent fared admirably. Lucien Freud's early and obsessively observed portrait of his wife established an auction record for the artist, although it is executed in conté, crayon and pastel rather than oil. Estimated at £120-150,000, it sold for at £308,000. Leon Kossof's portrait of his brother, "Portrait of Philip II" realised £185,000, a new record for his work.

Meanwhile at Phillips, a gold bullion embroidered black fur dress fez belonging to Mussolini set a record for a military headdress. It was secured for £48,400 by an American who fended off fierce Japanese bidding. Bonhams found a more pleasant record. Tunnicliffe's "Goldeneye in Snow Storm" realised £19,800.

After Miss Piggy and the Muppets in Art, comes Roger Rabbit on celluloid. Sotheby's sold all 500 celluloids offered from the film "Who Framed Roger Rabbit" in New York on Wednesday. The individual cells, made through the collaboration of The Walt Disney Company and Steven Spielberg's Amblin Entertainment, sold for everything from $700 to $50,600. The top price was paid for "Toons", the moment where Marvin Acme's will has been found, bequeathing Toon Town in perpetuity "to those loveable characters, the Toons!". In the spirit of the enterprise, Sotheby's currency board listed both dollars and "simoleons", the currency of Toon Town. The box office hit grossed £1,660,725 in the saleroom.

Susan Moore

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Friday June 30 1989

Journey into the unknown

THE LATEST issue of the OECD's Economic Outlook displays an intriguing mixture of pleasure and perplexity. The pleasure is over the recent performance of the economies of the industrial countries. The perplexity is over how the world economy now works and so whether the performance of the past can continue.

"The present upswing is," as the report remarks, "in its seventh year and, in 1988, OECD gross national product grew by over 4 per cent . . . Productivity performance has generally improved since the early 1980s. The average OECD rate of unemployment has fallen to 7 per cent, back to where it was in 1981. OECD governments can build on these achievements – the fruits both of the policies implemented in the 1980s and of strengthened international co-operation – to *promote sustained, job-creating* growth with low inflation over the next decade."

These remarks largely coincide with those in recent reports from the IMF and the Bank for International Settlements. As cautious international bureaucrats, the authors fret about inflationary risks, international imbalances, and Third World indebtedness. But underneath one senses growing belief that the progress of the 1980s could be much more than a mere recovery. It could be the start of a long period of sustained economic growth, similar to that before 1973.

Two clouds

What has been happening is certainly encouraging. Economic growth is expected to remain at 3¾ per cent for the OECD as a whole in 1989, following no less than 4.1 per cent in 1988. Although labour productivity rose by 2¼ per cent in 1988, well above the average in earlier years, total employment in the OECD countries still rose by 1.8 per cent in the same year. Employment has even been rising in Europe during the last three years, while the rate of unemployment in that region has at last started to decline, if slowly.

There are two clouds on the otherwise bright horizon: inflation, which has increased by around 1 percentage point over the last year, and the persistent external "imbalances." "These imbalances," remarks the OECD, "tended to diminish during the course of 1987 and early 1988, but on most measures adjustment slowed markedly in the second half of the year."

It is at this point that perplexity arises, the main cause being ignorance about the implications of the liberalisation of the world's financial markets. For example, monetary policy has been tightened in all major OECD countries by comparison with a year ago. But, as the report admits, this is no more than a "trial and error" process. Nobody knows what changes in monetary policy are required and so whether the action this far has been too much, too little or about right.

Global deficits

Precisely the same point applies to rectification of the international "imbalances." Though it is easy to see the dangers associated with steady accumulation of international debt by a country like the US, nobody knows what the sustainable pattern of global current account deficits actually is.

It is not even clear what policy changes would have the desired effect on the external position of the major countries. Particularly interesting in this context is an analysis of the medium term effects of fiscal tightening. According to the report, the fiscal route to a smaller current account surplus in Japan and Germany is not more, but less, government spending (because of the indirect effect of reduced spending on private investment). Even in the US the effect of reduced government spending on the capital inflow, though of the expected direction, is small in relation to the fiscal adjustment.

So the economy of the OECD countries is wandering across *terra incognita*, with an out-of-date map. The guides believe it is going in the right direction, but will not be sure until they are there. Given all these uncertainties, it is vital that economies must be kept as flexible as possible. For this reason the emphasis given to the need for economic liberalisation and structural reform is entirely right. Economic reform was one reason why the journey of the 1980s has become so pleasant for OECD countries. Now that economic slack has been fully used up, it will be still more necessary.

British Rail and the unions

THE PRIME MINISTER was right yesterday to resist backbench Conservative pressure for the rapid privatisation of British Rail as a panic response to the disruption caused by two one-day strikes. Successful privatisation requires very careful preparation, as Mrs Thatcher explained, and the long-term future of Britain's railways is too important to be used as a weapon to bash the National Union of Railwaymen. Attention should now shift to ways of bringing BR and the union together for negotiations which will solve the present dispute and lay the basis for more orderly industrial relations in the future.

It is easy to understand rail workers' frustration with the 7 per cent pay award which has been imposed upon them. Their fall in the pay league, the recent rises in inflation, the allure of better paying jobs with private sector companies, and the extent of the changes BR is asking for in collective bargaining machinery have promoted a demand for a rise of at least 10 per cent.

The NUR's suspicion about going to arbitration stems in part from their visit 10 days ago to Acas, the conciliation service. It was interrupted soon after it had begun by news that BR was seeking an injunction to prevent a strike proceeding.

Averted dispute

The contrast with the way *the threatened dispute* in electricity was averted is instructive. The employers did not fuel speculation of an improved pay offer merely to dash it. They simply raised the offer in negotiations. British Rail challenged the NUR strike vote on the grounds that a handful of the 70,000 people balloted had not received ballot papers. In electricity hundreds of workers at one power station did not get ballot *papers. Yet the employers* did not reach for a writ because they had a clear strategy to resolve the dispute through negotiation. The settlement in electricity was high, at 9.2 per cent. But it contained a commitment from the unions to discuss more flexible, decentralised approaches to bargaining.

The NUR and BR should now take the dispute to conciliation and then arbitration if necessary. A settlement may well require an improved pay offer.

As for the longer term, the corporation stands by its plans to replace centralised national bargaining with bargaining based on five operating units. This would allow it to tailor pay more to the pressures of the different labour markets it competes in. BR should also consider a much tighter approach to conciliation and arbitration of the kind many companies have introduced on greenfield sites to ensure continuity of production.

Marginal competition

Would privatisation, in one or other of the forms under review, lead to fewer strikes? Breaking up the corporation, either on the basis of its existing business sectors or regionally, would make it much more difficult for the NUR to mount a successful national strike, but no one should be fooled into thinking that competition between companies would be anything more than marginal.

Privatisation as a going concern might be a better commercial alternative, and could have a positive effect on industrial relations if it was combined with greater autonomy for the operating units within BR. That option remains open, but *is likely to have lost support* during the events of the last two weeks. Ministers should resist the temptation to ditch it without further serious thought.

Meanwhile, the Government, British Rail and the unions have to consider approaches which will at least reduce, if not wholly eliminate, the likelihood of further national strikes. Legislation limiting the scope for industrial action in essential, quasi-monopoly public services may be part of the answer, but it has to be linked with a new settlement within the industry under which the union and the corporation meet their responsibilities to their customers.

David Goodhart and Hugo Dixon look at West German moves to liberalise telecommunications services

Fortress Rhine lowers the drawbridge

From tomorrow IBM West Germany will be able to link its personal computers directly into the country's telex system. It will no longer have to go through the tortuous route of sending them via the UK.

West Germany's current ban on linking personal computers to the telex network is just one of a mass of restrictions that will be swept away in tomorrow's long-awaited reform of the Bundespost, the state-owned post and telecommunications authority. Designed to enable the country's telecommunications system to respond better to modern business needs, the law aims to make the *Bundespost* more dynamic and half opens the door to competition.

Overseas critics, who view the Bundespost as the "Fortress on the Rhine," remain unimpressed with the failure to privatise any part of Europe's largest business and with the rejection of competition on the basic telephone service.

But seen from a German perspective it is a radical step. "The first real reform of the century," says Mr Christian Schwarz-Schilling, Minister of Posts and Telecommunications, who has already dismantled public sector broadcasting monopolies in television and radio.

Although the liberalisation is less dramatic than that implemented by the US, UK or Japan, West Germany has tried harder than the others to reconcile competing business and social needs. Its approach could prove an attractive model for other countries which want to revamp their state-owned telecommunications services but are not prepared for fully-fledged liberalisation.

A vital aspect of the reform is the separation of the *Bundespost's three* parts: Telekom, the telecommunications service; Postdienst, the postal service; and Postbank. All three are now becoming corporations rather than administrations. The idea is that this will remove them from day-to-day political control and enable them to take hard-nosed commercial decisions.

At the same time, private-sector competition is being allowed in data and mobile communications. The Bundespost's last monopoly of the supply of customer equipment – providing *the customer's first telephone* handset – is ending. Although Telekom now gets 90 per cent of its revenue from its monopoly telephone service, this proportion is expected to fall to two thirds by the mid-1990s because the competitive areas are growing fast.

Pressure for reform has come from outside Germany in the shape of US telecommunications manufacturers and the European Community's drive to open up the customer equipment market.

Inside Germany, reformers from various ministries have combined with a rather weak business lobby to argue that German industry's telecommunications costs are an increasingly severe handicap, especially with the growth in cross-border telephone-based service trade expected after 1992 and the creation of the single European market.

Finally, as Mr Schwarz-Schilling himself admits, technological change was making the previous monopoly structure look increasingly anachronistic. A twilight world of unlicensed modems, PABX's, cordless phones and data services has grown up which the Bundespost has recently given up trying to stamp out.

Privatisation was always out of the question as it is banned by Germany's Basic Law. Competition in the basic telephone service has also been ruled out, at least for now, on the grounds that it could jeopardise the social obligation to provide all citizens with equal access to the means of communication.

"The old German states, based on the German tribes, have insisted on full coverage to maintain the quality of life of their people," says Mr Schwarz-Schilling.

The outcome is a three-tier system of telecommunications services: continuing monopoly services; mandatory services which Telekom must make available on demand across the country but which private companies will also be allowed to offer; and fully competitive services.

Although this new structure sounds neat in theory, there are doubts about whether it will work in practice. For example, critics point out that the boundaries between the three different types of services are vague, leading to fears that Telekom might expand the definition of monopoly and mandatory services and leave only a small area truly competitive.

It is already clear that the monopoly will extend beyond the basic voice service to include services which combine voice with pictures or data such as picture phones and video-conferencing. This is because the Government considers that basic voice forms the "main" part of these services. These multi-media services are expected to become increasingly popular.

There is similar concern over the boundary between mandatory and competitive services. The Government

Failure to privatise any part of Europe's largest business has left the Bundespost's overseas critics unimpressed

has made no decision on which services should be mandatory, although Mr Schwarz-Schilling mentions facsimile, telex and telegrams as possibilities.

The Minister argues that private operators will still be allowed to compete and will actually be at an advantage because Telekom will be obliged to provide a universal service whereas they will be able to cherry-pick.

The snag is that Telekom will be permitted to subsidise these mandatory services from its monopoly profits. *Although the cross-subsidy is not* supposed to exceed the level needed to meet universal obligations, there are doubts whether this can be policed effectively.

This concern leads into a more general worry that the whole method for policing Telekom is inadequate. The experience of telecommunications liberalisation in both the UK and the US is that regulators need to maintain a watchful eye to prevent the dominant supplier abusing its position and crushing its competitors.

But, while the US and the UK have both set up independent bodies to regulate telecommunications, the new German regulatory authority will reside in the Posts Ministry.

How can there be fair competition if Telekom's owner and regulator are the same, asks Professor Christian von Weizsäcker, a leading academic authority. Won't the Minister have an incentive to lobby on behalf of Telekom to the detriment of competitors, turn a blind eye to unfair cross-subsidisation and generally interpret the rules in a way that favours Telekom?

Mr Schwarz-Schilling dismisses these fears by arguing that the regulatory authority will be entirely independent from Telekom and that it is not the Posts Ministry but the Ministry of Finance which owns it. This, however, seems something of a quibble, since Mr Schwarz-Schilling also argues that it is his Ministry not the Ministry of Finance which will have the major say over Telekom's budget.

Some fear that vagueness over what is open to competition and concern *over inadequate policing* will scare away potential competitors. Others wonder whether the private sector will have the gumption to take advantage of the new opportunities.

Though far from perfect, the new regulations are an improvement on the current situation. Given that some entrepreneurial companies have managed to find loopholes in the present regulations, it seems fair to assume that more competition will emerge under the liberalised regime.

One source of competition will be from those companies which are *already offering services* in a small way. For example, Meganet, a Cologne-based service provider owned by a group of insurance companies, has started leasing lines in bulk from the Bundespost and selling capacity on them for data traffic to third parties at a discount. Volkswagen, IBM, and EDS, the General Motors subsidiary, have electronic mail and electronic trading operations.

Another source will be large companies which are already using telecommunications extensively for their own use. They would be in a good position to open up these networks to third parties for a fee.

But perhaps an even bigger question than whether competition will emerge is whether the reform will make Telekom a more dynamic and customer-friendly organisation. What incentive is there to improve efficiency since the company is not being privatised and competition on the basic phone service is excluded?

Mr Schwarz-Schilling's answer is incentive pay, which he has won the right to introduce after a bitter political battle. However, the scheme only applies to certain grades and covers no more than 10 per cent of pay.

Similarly, there are doubts whether telecommunications tariffs will fall sufficiently quickly – which is how consumers will judge the success of the reforms – given that such matters will still be decided by political barter.

Although the Bundespost is being split into Telekom, Post and Post Bank, above them will be a directorate consisting of the chiefs of the three businesses. Parallel to this will be an Infrastructure Council consisting of 11 Länder representatives and 11 Bundestag representatives. This will have some say in such crucial areas as rebalancing tariffs and new investment.

Telecommunications prices are 15 per cent higher than they would otherwise be because the telecommunications business has to support the loss-making post business, says Mr Karl-Heinz Neumann, head of the Bundespost's semi-independent think-tank.

Even after an extremely unpopular rise in postal rates, the business will not break even until the mid-1990s. The combination of both activities under a common directorate could make it difficult to root out this subsidy.

A further subsidy, which economists claim is distorting the market, is from long-distance to local calls. The result is that a standard three minute long-distance call in Germany costs the equivalent of £1.08, compared with 40p in the US and only 32p in the UK, according to the London-based National Utility Services. A standard local call costs 7.2p – somewhere between the US's 4.5p and the UK's 9.8p.

A vigorous rebalancing exercise is now under way, with the aim of cutting the tariff on long-distance calls by almost half and increasing that for local calls by 25 per cent over three years. Even then the subsidy will not be completely eliminated and there are fears the programme will fall foul of the Infrastructure Council.

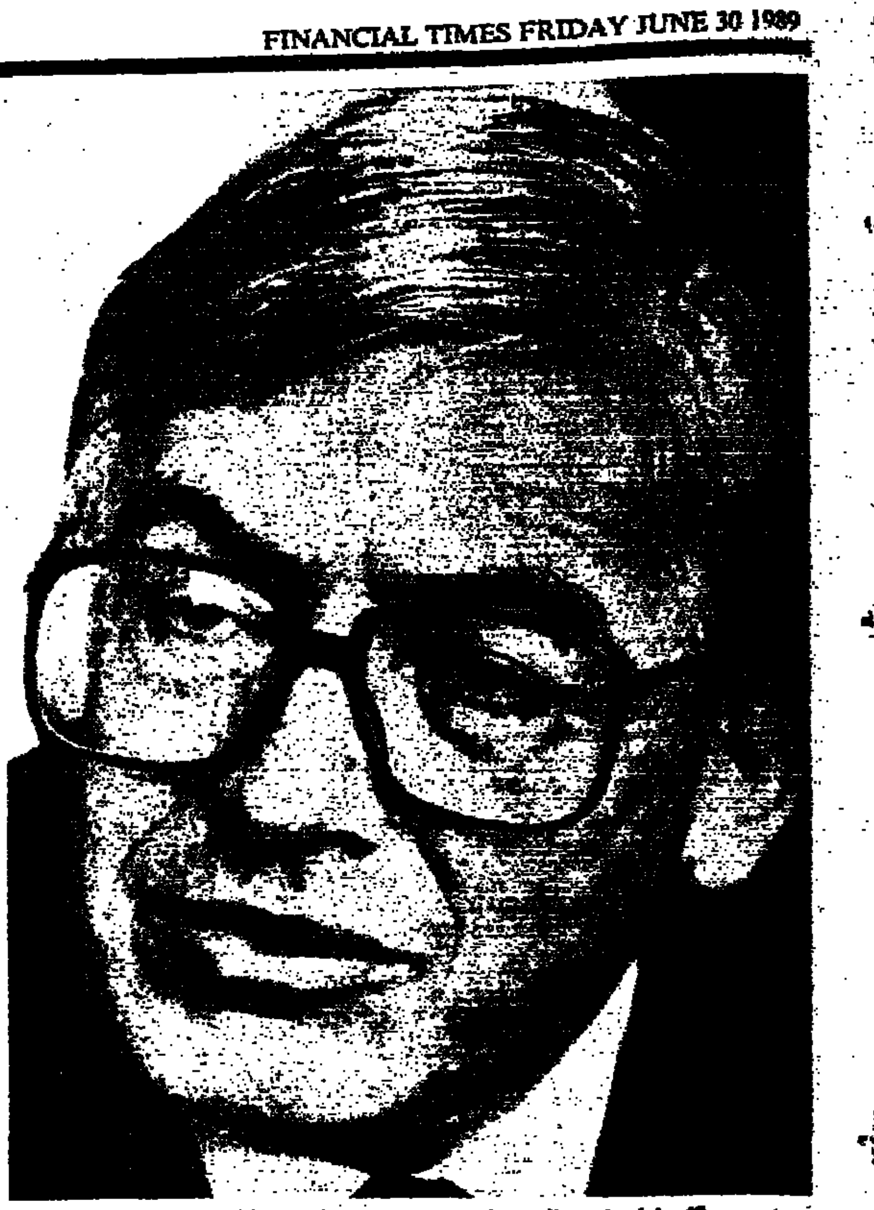
There are also fears that the Infrastructure Council could stop Telekom buying cheaper network equipment from foreign suppliers. *Foreign* manufacturers have been successful in a number of fringe areas – GPT of the UK, for example has sold intelligent payphones to the Bundespost – but not in mainstream areas of switching and transmission equipment.

The Posts Ministry's response is that SEL, the second biggest supplier, is foreign-owned and that foreign-based companies have not made enough effort in the past to adapt to German standards. "Many foreign companies just decided that the German market was too small to be worth the effort," says Mr Schwarz-Schilling.

The Minister accepts that the German system of checks and balances means tough political battles ahead to prevent the reform being watered down. But the very fact that the German Government has staked its reputation on the current reforms means it has a vested interest in seeing them succeed. The choice of Telekom chief executive, expected at the end of the summer, will give an early indication of its strength of purpose. The Government has already decided not to choose an insider.

At the same time, the new regime will create its own vested interests. As business customers get used to their new freedoms, they will probably clamour for more.

These pressures make it likely that the next step in Germany will be a further opening up of the market rather than a retreat to the Rhine Fortress. If foreigners come back in several years, says Mr Schwarz-Schilling, they "will be quite astonished to see the effect."



Christian Schwarz-Schilling: "Foreigners will be quite astonished"

OBSERVER

Britain's new demon

■ Jimmy Knapp of the railwaymen has replaced Arthur Scargill of the mineworkers as a contemporary demon: unfairly perhaps.

Knapp was once described by his predecessor, Sid Weighell, as "wet behind the ears, a stooge of the Communist and Trotskyist Left." His election to general secretary in 1983 signified a shift in the NUR from the right to the left of the Labour movement, but he has never shared Scargill's fundamentalist brand of Marxist-Leninism. Militants within the NUR want an all-out transport strike to bring down the Government. Knapp wants 24-hour strikes to press British Rail into negotiation.

One fellow trade unionist said of him yesterday: "He is a typical product of radical Scottish trade unionism, but not all the time. Above all else, he's a pragmatist."

A railways manager said: "Jimmy is a basically honest, nice person, but he's no great intellect."

Now 49, Knapp began as a signal-box lad at the age of 15 and steadily worked his way up the union hierarchy. When not taking long walks in the English countryside (his favourite hobby), or leaving *TUC meetings early in order* to get home to his wife (his best friend), he has spent most of his official time since becoming general secretary trying to improve the internal democratic process of the NUR.

Although he singlehandedly imposed his will on the union on some issues, such as the acceptance of the Government's reform of trade union ballots, the latest union campaign has Knapp simply doing what his rank and file have voted that he should do.

His Scottish accent is so broad that it was once described as gargling with whisky. But he is not an angry man by nature and believes in taking the trade union case to the public. Earlier this year he told railwaymen to dress up as sardines in order to bring home to the commuter the problems of working in overcrowded trains.

French rock

■ The arm of the French state remains remarkably long. Jack Lang, the Minister of Culture, has just appointed a man to look after the rock music scene. Three large halls for rock concerts are under construction, as well as around 40 smaller ones which will have the backing of the local authorities. These are known as "pub-rock" and the first one will open shortly at Ris-Orangis. According to Le Monde, Lang's ministry is also busy looking at the place of French popular music in the future European Community. Are the British falling behind?

Real games

■ Carl Icahn and T Boone Pickens, the arch-raiders, Henry Kravis, the king of the leveraged buy-out, and the Dalai Lama are all going to the same conference. They are being brought together by John Diebold, *the father of the term* "automation" and top management consultant.

The occasion is the 21st conference of CIOS, the Conseil International pour L'Organisation Scientifique; the venue New York in September. With 49 member organisations, CIOS takes its name from the "scientific management" movement which swept the industrialised world in the 1920s. The first congress was held in Prague in 1924, convened jointly by the Czech President, Thomas Masaryk, and Herbert Hoover before he became President of the US.

There will be a range of presentations, discussions and "live" (partly acted) case

"You didn't fill in your poll tax form because your rottweiler ate it?"

studies, on topics from the industrialisation of developing countries to the management of a hospital. The highlight will be what Diebold calls "a theatre-in-the-round presentation of The Board and Top Management", or "A Board Under Siege".

Actors will be real-life stars of business and politics, including Robert Anderson, former *chairman of ARCO* and now president of Hondo Oil, who will play the chairman of a company with ecological problems. Carl Icahn will arrive with a takeover offer, backed by Fred Joseph of Drexel Burnham Lambert, the junk bond specialist. The supporting boardroom cast will include the Rev Jesse Jackson as a public director. The Dalai Lama will be fitted in by giving a talk on the role of the individual in today's organisation-dominated world.

Pink in Chile

■ Although red and pink are dangerous colours in Chile, a pink financial daily paper has emerged. Is coincidence or is it blatant imitation? Roberto Meza, director of El Diario Financiero, says that it is the latter, but he admits sadly that his pink is not quite as intense as that of another newspaper.

The paper started in white nine months ago, and switched to pink last week. The idea of subliminally associating it with the Financial Times, which is well-known if not *widely read in Chile, is* considered a magnificently clever stratagem in an overcrowded newspaper market. It is Chile's only financial daily paper.

El Diario Financiero is a small operation: 14 journalists and a circulation of 10,000 per day. The paper is breaking even. Thanks to computer technology, it is easy to produce and it sells for 100 pesos or 35 US cents against nearly $2 for the FT. Advertising is beginning to come in.

Into Africa

■ Where are the Hong Kong Chinese going? Some of them are going to Nigeria where they are beginning to dominate the restaurant business. I noticed this myself on a visit last month, but did not realise it was new. It is now confirmed by David Williams, the great West Africa expert who has been celebrating his 75th birthday there. The Chinese have taken over the former French restaurant at the top of the Eko Hotel now run by the Meridien group in Lagos, and very good it is. The takeover is by no means confined to the capital.

Uxorious

■ The story is told of a Sheikh who went into a large Marks & Spencer and asked to buy an entire rail of night dresses. "But they're different sizes," the assistant said. "So are my wives," he replied.

POLITICS TODAY

When the crown starts to slip

By Joe Rogaly

The myth of Margaret Thatcher, superstar, may have peaked on May 4th, ten years after she became Prime Minister.

Today, only 8 weeks later, more of her admirers are beginning to see her for what she really is: not a surrogate queen, but merely a lucky and skilful politician who has been perceptive enough to catch an incoming tide. The question of the hour, therefore, is whether that tide is now receding.

In one important sense the answer is yes. Mrs Thatcher faces a potentially strong opposition for the first time since she became leader of the Conservative Party in February 1975. This does not mean that she necessarily faces defeat in 1991 or 1992. That is still extremely unlikely. The resurrection of the Labour Party is nevertheless of some significance. For Mrs Thatcher has had no experience of such a phenomenon. In her early years she was herself in opposition, a fledgling more than half afraid of the Prime Minister, Harold Wilson. Under his successor, Jim Callaghan, the Labour Government defeated itself in the May 1979 election that brought her to power. Her immediate task at the time was to establish her ascendancy within her own party.

She did this well, but there was room in which to do it. The Labour opposition she then faced was divided and demoralised. In January 1981, just 20 months into what was to become her long reign, the party split and the "Gang of Four" (never mind their names now) launched what became the Social Democratic Party. It is fashionable to recall the immense risks that the new Thatcherite government took with the economy at the time; what hindsight teaches us is that the schism in the Labour Party made it possible for her to proceed without excessive fear of retribution at the polls.

In the 1983 election, flushed with success in the Falklands war, Britain's first woman Prime Minister was therefore blessed with a diminished and hopelessly left-inclined Labour party. It was led by the incompetent Mr Michael Foot. The excitement over the joint performance of the SDP and the Liberals was intense: what became the Alliance attracted a quarter of the votes cast, just two percentage points behind Labour. Many of us imagined that the Labour Party was in terminal decline, and that the Alliance might eventually replace it.

Simple arithmetic attracted less attention. Yet basic mathematics showed that the Tories could go on winning indefinitely on a 40 per cent-plus vote. The reason was that there were three contending parties. Arithmetic prevailed again in 1987 – with an important difference. We believers in addition and subtraction could by then discern a sub-plot: far from continuing its decline, the Labour Party pulled well ahead of the Alliance, with nearly 31 per cent of the vote as against the latter's 22½ per cent.

The two years since then have been spent in more or less continuous hypnotic fascination with the apparently unstoppable Margaret Thatcher. The Tories, it seemed, could go on doing as Mrs Thatcher liked, perhaps until a new Great Exhibition is held to honour her as we move under her guidance into the 21st century.

I would not bet much on that. Under Mr Neil Kinnock the Labour Party has been doing its own sums. The remnants of the Alliance have fought one another into the dust. They are of no current political significance. The results of the recent spate of by-elections, plus the elections to the European Parliament, support my earlier hunch that Labour was likely to score well in the opinion polls. The Green Party must for the time being be regarded as of greater importance for its effect on the Tories and Labour than as a likely replacement for the Alliance as a schismatic force.

Thus Mrs Thatcher faces a newly-confident Labour opposition. It is being re-shaped by Mr Kinnock into a standard European social democratic party; when it is that it will undoubtedly be a future British government, perhaps in the late 1990s. He has some way yet to go, as Mr Giles Radice, Labour MP for North Durham, points out in a new revisionist book, Labour's Path to Power, published this week by Macmillan. Yet the process is well advanced. It may by now be proof against even the accidents to which the Labour "movement" is so prone. Such an accident occurred on Tuesday, when the Transport and General Workers Union voted in favour of unilateral nuclear disarmament and against the Kinnockite multilateral fudge. It happened again yesterday, when the National Union of Railwaymen voted similarly. The conventional wisdom is that this matters little since most other unions will vote multilateral at the party's annual conference in the autumn; Labour's proponents go one better and say, reasonably enough, that it will do Mr Kinnock good to be seen to win a vote against the opposition of the TGWU and the far smaller NUR.

None of the above is sufficient to win him the next election. He has a lot more to do to stand a chance of that. He has a few more socialist clothes to shed and a number of social democratic garments to put on. It would be a miracle if the Labour Party were to gain sufficient seats in the south of England to put Mr Kinnock in Downing Street next time. These things do not change all that much just because of a few summer upsets. Yet the Government has to take notice of a resurgent Opposition, and Mrs Thatcher is obliged to adapt to her own slightly less elevated status.

For example, some of her senior back-benchers are saying that although the Prime Minister remains an asset, she could come a cropper if she relied on undiluted Thatcherism to see her through. There is thus a call for what Mr John Biffen once called a "balanced ticket," which boiled down means bullying one's ministers rather less and allowing the pleasing ones to be seen to flourish on their own soil. Mr Kenneth Baker, who has been assiduously making his mark with the Tory Right, is one such minister; Mr Christopher Patten, if promoted to, say, Environment, could be another.

More fundamentally, there is a renewed desire for an end to the frenetic ideologically-driven activity of the past two years. This should be possible in the natural course of events. Water and electricity privatisation will soon be out of Parliament, although the latter will be put into effect in stages over the next few years. The poll tax could be eased in with a small bribe of a billion pounds or so. A compromise, or something that looks like it, might calm the legal profession.

The doctors may be harder to placate. Reforming the Health Service, a new Conservative Political Centre pamphlet by David Willetts, produced yesterday, suggests by its tone that an emollient approach to National Health Service reform may now be tried. This will be difficult for the pugnacious Health Secretary, Mr Kenneth Clarke, and his equally temperamental minister, Mr David Mellor, but they have little option. Since it will anyway take a couple of years to get many self-managed hospitals or general practices up and running there would be little lost and perhaps something gained if the enabling Bill contained phrases like "experimental" and "pilot schemes." We can assume that they are thinking about it.

These are small signs. The big question is whether there is a broader change in the Tory Government's sense of its own mission. On May 4 the Prime Minister was still self-assured enough to believe that her crusade to challenge everything in British life could be pursued indefinitely. Her power was enormous: she could not only revolutionise the home front, but start to re-shape parts of the world. She has since found the world less malleable than she may have thought. The Germans have the lead in matters of disarmament. The French and the Germans together have the lead in the European Community. The South African Government, as shown by yesterday's revelation of National party policy, remains wedded to a form of apartheid under new fancy names, in spite of her flirtation with its leaders.

None of this is likely to dent Mrs Thatcher's personal sense of what she is in No 10 Downing Street to do; that would be contrary to human nature. But it is part of her nature to allow politics to prevail: she gives in when there is no other choice. That is what happened in Madrid earlier this week. Her carefully-crafted tactics worked much better than her more customary tantrums. The important point is that they were the tactics of an ordinary politician. They have won an ordinary political reward, the (temporary?) *reunification of the Conservative* Party around a generally acceptable policy for Europe.

The same approach may have assisted in persuading backbenchers that there will henceforth be a truce between the Prime Minister and her Chancellor, Mr Nigel Lawson, on the matter of sterling's membership of the European exchange rate mechanism. If there is, and if it lasts – two big ifs – it will be the result of a normalisation of the balance of power between Mrs Thatcher and Mr Lawson. For both understand that their fate and that of their party depends upon bringing inflation down.

There is now a third "E" after Europe and the economy – the environment. This now presents a political problem that requires a leader of extraordinary abilities to resolve. Its nub is this: the Green movement is basically anti-growth, on the grounds that growth is the main engine of destruction of the environment. The Labour and Conservative Parties exist to make their followers richer; they can only survive if they profess a belief in growth. The way out is "sustainable growth" which everyone finds easy to say, but nobody knows how to do. It means tailoring every economic activity – and the overall growth rate – to that which the environment can sustain without damage.

If Mrs Thatcher discovers how to get that one right she can have her crown back.

LOMBARD

The dream of Arab unity

By Andrew Gowers

WHEN an ageing Syrian Christian by the name of Michel Aflaq died last Friday in Paris, the contrasting Arab reactions provided a poignant commentary on the state of Middle Eastern politics.

From the 1940s to the early 1960s, Aflaq was the high priest of Arab nationalism. His quasi-mystical vision of Arab unity as a force for regenerating society inspired the political upheavals of the time in Syria and Iraq, and found expression throughout the region in the spread of his Baath (literally, "reawakening") party.

Yet from 1975 he lived in seclusion in Baghdad – little more than a mascot for the regime of President Saddam Hussein, to be wheeled out on party anniversaries but certainly not to voice any public opinions of his own.

His death was officially mourned only in Iraq, and was completely ignored in his native land. The Baath party itself long ago split into two rival wings in Baghdad and Damascus, both stripped of ideological content and transformed largely into vehicles for personal power. The bitter antagonism between them, and their governments' abysmal human rights records, make a mockery of the old Baathist slogan "unity, freedom, socialism."

Throughout the region, Arab regimes continue to mouth support for pan-Arab nationalism, while in reality pursuing narrow *raison d'état*. The cynicism of a populace confronted with such a gap between theory and practice cannot be overstated.

Nor is this the only unfulfilled dream of Arab politics in the last 40 years. Indeed, the demise of Aflaq prompts wider questions about the way Arab regimes have sought to legitimise themselves, especially the generation of leaders that came to power after the 1967 Arab-Israeli war and is largely still there.

In short, the devices and symbols which these regimes have manipulated in order to shore up their control these past two decades are all beginning to look like wasting assets.

The prosperity of the 1970s, which enabled Arab rulers to offer their rapidly growing populations jobs in government service and to build up formidable security forces, is wearing thin.

Without exception, Arab countries are finding that their bloated bureaucracies are an obstacle to investment and productivity. In some cases, such as the Maghreb states, Syria, Jordan and Egypt, severe economic dislocation has set in, confronting rulers with a potentially combustible mix of frustration and *ennui* among city-dwellers.

Then there is the question of Palestine. The quest for the recovery of at least a part of the Arab territory conquered by Israel has been a symbol of supreme importance for Arab regimes for 41 years. Their manifest failure to achieve progress towards this goal has long been a source of potential domestic discontent.

But in the last 19 months, they have found themselves pushed to the margins of the conflict by the Palestinian uprising in the occupied West Bank and Gaza Strip.

Arab summit meetings these days present the bizarre spectacle of kings and presidents voicing support for a popular rebellion in Palestine of the sort which they have every reason to fear at home. The riots in Algeria last October and in Jordan in April, although sparked off by economic problems, also carried a powerful political message about the need for greater *accountability and popular participation.*

Democracy is another concept to which "progressive" Arab governments have paid ample lip service in the past 20 years, without the slightest intention of putting it into practice. What they, and Aflaq, apparently failed to understand is the link between liberation from foreign oppression and civil liberty at home.

If the Middle East is ever to emerge from its present malaise, Arab regimes will have to accept that the way to consolidate their systems lies not in the self-serving manipulation of ideological symbols but in an effort to build proper political institutions and win genuine popular support.

LETTERS

Dispute at British Rail

From Mr R.A. Rosser.

Sir, Just a few comments on the British Rail Board's expensive advertisement in the Financial Times yesterday (June 29).

Last time we referred an issue to the chairman of the Railway Staff National Tribunal, the Board flatly refused to go for over nine months, and then only after the intervention of the Advisory, Conciliation and Arbitration Service (Acas).

When a decision was given in our favour the Board refused – and is still refusing – to abide by it. So much for its respect for the Tribunal and its independent chairman.

The British Rail Board wants to abolish the Tribunal from the end of October this year. After then it wants to have the right to veto any trade union claim being referred to arbitration. Once again, so much for its new-found respect for the Tribunal and its chairman.

The British Rail Board imposed its "final" pay offer knowing that we had referred our claim to the Railway Staff National Tribunal.

Clearly, at that time, just over seven weeks ago, it did not regard the Tribunal as the appropriate body for settling differences.

The board's final pay offer of 7 per cent to staff throughout the industry is below the rate of inflation. In contrast, when it comes to fares the BR Board has no compunction about consistently imposing increases for its customers which are well above the rate of inflation. Both customers and staff get *an unfair deal from the board.*

Finally, Acas has not instructed the National Union of Railwaymen nor any other union to refer its claims to the Tribunal, as the Board alleges in its advertisement.

Richard Rosser,
General Secretary,
Transport Salaried Staffs' Association,
Walkden House,
10 Melton Street, NW1

Measured out in money

From Mr I.R. Bloor.

Sir, Mr Samuel Brittan quotes admiringly the words of Professor McKinnon to the effect that all the benefits of a common monetary standard can be secured with national moneys remaining in circulation (June 15). This is surely disingenuous.

Under a monetary union, whether the classic gold standard or some other standard, it is the object chosen for the standard that becomes money, not the units which simply express given quantities of it. (A given quantity of liquid may be expressed in either pints or litres, and as long as the relationship between the two measurements remains the same it does not matter in real terms which is used, because the actual quantity of liquid being considered is the same.)

Similarly, in a monetary union with absolutely fixed exchange rates it is the quantity of money which matters, not the means by which it is measured.

This must surely imply entrusting the money supply to some central authority of the union – unless a control system like that of the classic gold standard were to be adopted which solely depended upon the fluctuating supply of this metal.

As readers with some knowledge of economic history will be aware, a country which lost gold under this system for whatever reason, current or capital, suffered a loss of money which, because of the absolutely fixed relationship of the currency unit to a given weight of gold, automatically brought about a deflationary effect.

The room for individual manoeuvre by national monetary authorities in any monetary union is extremely limited because of the *de facto* existence of a single form of money. To retain individual national currency units in a monetary union would be at best eccentric – in fact dishonest, because it would encourage a false illusion of continuing monetary sovereignty.

I.R. Bloor,
1 Brickfields,
Wirksworth, Derbyshire.

Compensation claims liquidated

From Mr Henry Witcomb.

Sir, Robert Rice's *legal* column (June 26) highlighted the plight of compensation claimants who may be left without a claim if their former employer has gone into liquidation.

We welcome the Government's move, in the *Companies* Bill, to extend the re-registration of companies from two to 20 years. This will undoubtedly help many future claimants. Crucially, however, this right is not retrospective.

Mr Francis Maude, the Minister for Corporate Affairs, stated in committee last week that retrospection would place a huge burden on insurers, because they have discounted their premiums or liability to companies in the knowledge *that a number of claims would* probably be lost if the insured company became bankrupt and dissolved, therefore enabling them to escape liability.

But the Minister failed to answer the argument raised by *the* Bar's law reform committee report, which says: "essentially, it is a windfall if insurers avoid liability for this particular . . . category of claim." Jonathan Mance QC, author of the Bar's report, argued that, prior to the House of Lords' decision in *Bradley v Eagle Star Insurance Co Ltd*, in March 1989, the law was uncertain, and it was "most unlikely that any insurer would have relied in any meaningful sense" on that decision as it *was decided, and* discounted its liability accordingly.

So who is right? The Minister suggested that it was up to those proposing retrospection to show that it should be introduced. By doing so he appears to be reflecting without question the insurance lobby's claims. But where is the evidence that its claims have any basis?

If the insurance industry really has been discounting its liability in the past, it should produce that evidence. If not, it is an act of particular callousness for it to be denying access to justice to injured people.

Henry Witcomb,
3 Endsleigh Street, WC1

Report with reservations

From Mr Rhys David.

Sir, Andrew Hill has been generous in his reports (June 24 and June 26) on the Department of Trade and Industry investigation into the affairs of Bestwood plc – but I fear not a little unfair.

It is completely inaccurate to say, as he says no fewer than three times, that Bestwood was tipped by Business in March 1988 as likely to be the top British company in the year 2000. Bestwood appeared at the head of the Business "Smart 200" list in our April 1988 issue by virtue of its spectacular sales growth (122.8 per cent) over the previous three years.

A short accompanying article was headlined, however, "Bestwood: A Paper Tiger?" The text was equally reserved in its analysis of the company, pointing out that Bestwood's most potent expansionary tool, its share paper, was "blunted," and drawing attention to the disappointment among investors and brokers at its most recent interim results. "Bestwood," Business concluded, "is everything that went out of fashion on October 19 (1987);" moreover, it was now "in a vulnerable position."

Far from getting it spectacularly wrong, as Andrew Hill implies, we seem to have been among the more prescient in commenting on the company's affairs.

Rhys David,
Publisher,
Business,
234 King's Road, SW3

Not such a heavenly City

From the Rector of St Mary-le-Bow.

Sir, Colin Amery's article attacking the Environment Secretary's decision to let Mr Palumbo demolish the listed buildings at No 1 Poultry (June 12) prompts two questions:

● Whatever happened to the City Plan?

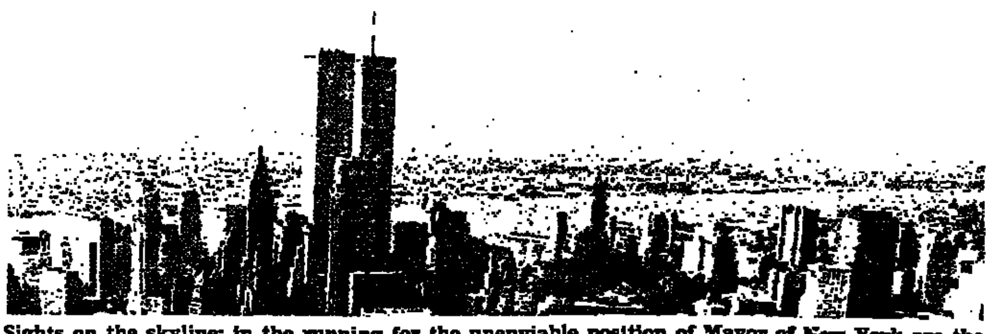
● In the appeal inspector's report, representations in support of the proposals are listed on page 51. Representations from those against cover pages 53-112. How can such a weight of evidence be ignored?

Victor Stock,
St Mary-Le-Bow Church,
Cheapside, EC2V 6AU.

FINANCIAL TIMES
Friday June 30 1989

Three take a bite at the Big Bad Apple

Janet Bush looks at runners and form in the race to become next Mayor of New York



Sights on the skyline: in the running for the unenviable position of Mayor of New York are the scourge of Mafiosi and Wall Street insider traders, Rudolph Giuliani (left), the incumbent Mighty Mouth, Ed Koch (centre), and the understated Borough of Manhattan president, David Dinkins.

THE RACE to become Mayor of New York, surely a most unenviable job, is the most competitive for many years and promises a fascinating result, whoever wins.

There are two front-runners and a celebrated underdog for the November election. It is a campaign that will decide who will steer this city – slouching towards despair and badly in need of leadership, in the words of Mr Joe Klein, one of its most astute political columnists – for the next four years.

The leading contender for the Democratic primary by a very large margin over an embattled Mr Ed Koch, mayor since 1977, is Mr David Dinkins. The understated, gentle Manhattan Borough president is not the first black contender for mayor but certainly the first with a good chance of winning.

Mr Dinkins, a respected politician, has solid backing from the highly politicised black community and broad support from trade unions, white liberals and many local political leaders.

The candidacy of Mr Rudolph Giuliani, former US Attorney for the Southern District of New York, has revived the almost mythical coalition between the Republican and Liberal parties which elected two legendary mayors: Fiorello H. La Guardia from the mid-1930s to the mid-1940s and John Lindsay in the 1960s.

Mr Giuliani is backed by his formidable reputation as scourge of the Mafia, Wall Street's insider traders and corrupt public officials in the scandal-ridden Koch administration.

He is proving to have enormous appeal across race, class and political barriers because of his strong law and order image, in a city which is imploding under the pressure of drug, particularly "crack," induced violence.

An opinion poll carried out for the New York Post last weekend shows that the former prosecutor, who runs in both Liberal and Republican primaries on September 12, would beat Mr Dinkins by 10 points and Mayor Koch by two votes to one in the November 7 election.

He would be the first Republican victor in this overwhelmingly Democratic city since John Lindsay won in 1965.

But what of Ed Koch who boasts nicknames like Mayatollah and Mighty Mouth?

His popularity ratings have plummeted since the heyday of his first term, when he was credited with dragging the city back from the brink of bankruptcy in the mid-1970s. Yet nobody is prepared to exclude the possibility of him winning an unprecedented fourth term.

"You have in Ed Koch the most formidable candidate that I have seen for years and years and anyone who has counted him out because of a few opinion polls is making a big mistake," says Mr Howard Rubenstein, whose public relations firm has worked for many a New York politician.

Mayor Koch has enviable political savvy and a host of favours to call in. But there is no doubt that the vast majority of New Yorkers are tired of him. Although his love for the city is undoubted, his barbed wit and boundless egotism no longer seem an appropriate response to the appalling problems of homelessness, drug gang warfare and racial division.

Mr Koch still leads the other two Democratic contenders, who are not given much of a chance of winning. They are Mr Richard Ravitch, former head of the Metropolitan Transportation Authority, and Mr Harrison Goldin, New York Comptroller and a long-time foe of Mr Koch.

Mr Giuliani's Liberal challenger is Mr Donald Harrington, a veteran who stands no chance of winning without the party's endorsement, already given to the former US attorney.

Mr Giuliani's opponent on the Republican ticket, although not expected to beat him, could be more troublesome. He is Mr Ronald Lauder, heir to the Estee Lauder fortune, and he has waged a campaign almost entirely through a negative advertising blitz attacking Mr Giuliani.

He has already spent $5m and is apparently prepared to spend $5m more. "Mr Lauder's campaign is like a laboratory experiment to see if a candidate with no brain can still win because he has an enormous wallet," said one political commentator.

New York magazine's Joe Klein believes Mr Koch will lose. Koch alienated black and white voters during the New York Democratic primary for the presidential nomination last autumn with his comment that people would be crazy to vote for the Reverend Jesse Jackson. He is also widely seen as presiding over a city which is falling apart.

New York has deteriorated even since the fiscal crisis of the mid-1970s. Mr Klein says: "The fear then was the specific fear of financial chaos. Now we have a more amorphous kind of fear and it is much more frightening. It is like Beirut – creeping anarchy."

The expected confrontation between Mr Dinkins and Mr Giuliani will rest on two factors, in his opinion.

The first is race. Mr Dinkins, who already faces a considerable hurdle with a section of voters because he is black, would be severely disadvantaged if a tough summer of racial incidents emerged. "All you need is one more white policeman killing a black kid."

The second is whether Mr Giuliani proves tough enough to take the blows that have started raining down on him as the man to beat. He has already had to take a leave of absence from his law partnership because the firm once had Panama's General Manuel Noriega, indicted in the US for drug trafficking, as a client.

Mr Giuliani, who has a stern, almost sepulchral visage, must also prove that he is human. He already prides himself on doing a passable imitation of Marlon Brando in The Godfather, but it may be the birth of his second baby in August, and the invitable blanket press coverage of his paternal cooing, which could tip the balance in his favour.

THE LEX COLUMN

A fresh lead from the Bundesbank

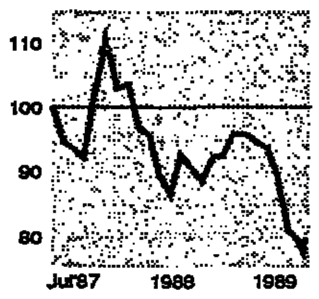
The UK authorities could learn a thing or two from West Germany when it comes to interest rate tactics. Like the UK, the West Germans bungled their last increase in interest rates and their currency suffered. This time, they have raised rates at a time when their currency was not under attack and inflation had dipped below 3 per cent. The increase was timed to cause least political damage – coming after the Euro elections but well before next month's Paris economic summit – and has enabled the Bundesbank to regain the initiative.

No doubt there will still be domestic squabbles about whether the West Germans needed to raise rates for internal or external reasons, but the move has almost certainly avoided the need to raise rates again before the end of the summer. This was underlined by yesterday's rise in the local bond market; by fixing next week's securities repurchase agreement 40 basis points below the new Lombard rate, the Bundesbank has firmly signalled that it does not want market rates to rise from current levels.

By contrast, the UK authorities have yet to regain the initiative. While yesterday's rise in continental European interest rates is unlikely to trigger an immediate rise in UK rates, it has highlighted sterling's exposure. There is a growing inevitability that UK mortgage rates will have to rise, even without another rise in base rates. So if the UK really wants to quell its inflation, which is nearly three times the West German level, it should follow their example with a pre-emptive rise in rates.

TSB

TSB
Share price relative to the FT-A All-share index



The kindest interpretation of the TSB's terrible first half figures is that the new chairman is having a good clear-out so that the group's future performance will look more flattering. However, this is almost certainly too kind. The unhappy experiences of Midland Bank and Standard Chartered are a reminder of how quickly things can go wrong at seemingly well managed banks. Of course, everyone knows that the TSB does not have any LDC debt to speak of, but this does not mean that investors can sleep easy.

The TSB's costs have rocketed, its net interest income is virtually unchanged – even though its advances have risen by more than a third – and it made a nasty loss on its treasury operations when it misread the next move in sterling interest rates. This is not the sort of information which gives much confidence in the ability of an untested management team to weather what could be the most serious downturn in the UK retail financial services industry in more than a decade.

The dividend has been raised by 10.5 per cent, but there must be a limit to how much longer this sort of generosity can persist. If the new management really is serious in its quest to improve shareholder returns, it should scrap the anti-takeover protection at the first opportunity. This would be a far better incentive than any number of critical reviews.

Salomon

In the battle for pre-eminence among continental European capital markets, Italy is scarcely in the running; so it may seem odd for Salomon to choose an Italian partner as a vehicle for its European ambitions. San Paolo itself is a respected institution whose stakes in Hambros and Suez give it an international perspective. But the Italian market is, as Mr Gutfreund delicately puts it, "underdeveloped"; and it must present more limited opportunities for Salomon than, say, the French market would have done. In a world where some of Salomon's major Wall Street rivals have much more powerful backing from the Japanese, a 5 per cent commitment from Italy must look pale by comparison.

BPB

BPB might not have seemed the obvious stock to rise 3 per cent on a day when the market fell 27 points. Yesterday's announcement of an 11 per cent increase in profits last year was scarcely the stuff of outperformance; and the company itself spent the day issuing warnings that earnings may stagnate or even fall over the next two years.

But the market took on board the worst of the news about BPB quite some time ago. The shares have underperformed the market by 32 per cent over the past year, with the price falling to a point where the prospective yield on the shares was nearly as high as its p/e was low, at round about 7.

At some level – perhaps not far from the current one – BPB's share price performance must start attracting interest outside the circle of its own investors. Predators might focus on the growth of BPB's market – 6 or 7 per cent this year in the UK, and a few points more than that in Europe – and the low cost of its production base, once the current capital expenditure programme has finished. But unless they do, the continuing threat of serious competition in the home market from Redland and Knauf could keep BPB on the list of underperformers.

Elders IXL

It is not every day that a company under no threat of takeover urges its shareholders not to sell their shares. But they do things differently in Australia, and none more so than Elders. The complex plan for the company to tidy up its share register has been heavily criticised, and no wonder. If shareholders were to baulk at the proposed offer of shares at well over the market price, Mr Elliot and his colleagues – who have underwritten the offer – could come very close to controlling the company without having bid for it.

The key question about yesterday's announcement is the nature of the promised "material information" which is to justify the offer price of A$3.00. It could be a number of things: details of the promised flotation of the brewing business, in the UK or worldwide: a resolution of the brewing merger in Canada: or – perhaps most intriguingly – sale of all or part of Elder's 24 per cent stake in Scottish & Newcastle. The last would be a bold move, given the chronic uncertainty gripping UK brewing ahead of the final ruling from Lord Young. But on the other hand, it would be wholly in character.

De Klerk launches election campaign

By Anthony Robinson in Johannesburg

VOTERS in South Africa should take the opportunity "to break out of the cycle of conflict," said Mr F W de Klerk last night as he acted to consolidate his authority as leader of South Africa's ruling National Party with the launch of its general election campaign.

Addressing the party's one-day Federal Congress in Pretoria City Hall, Mr de Klerk told cheering MPs and senior party officials that "a ray of hope is shining through the dark clouds of violence and strife ... history is offering us a golden opportunity at the beginning of the last decade of this century."

He pointed to the election process in Namibia, the prospects of reconciliation and negotiation in Angola and Mozambique and the way "economic realities are forcing the countries of southern Africa to take a new look at closer co-operation."

Inside South Africa, he continued, "I have been heartened by a wide range of discussions with various leaders." He added: "After my talks with European leaders, my impression is that this changing atmosphere is causing them to cautiously re-evaluate the situation in South and southern Africa."

After his upbeat analysis of the international situation Mr de Klerk went on to promise a tough battle against both the "unrealisable policies" of the Conservative Party and a newly-formed Democratic Party whose "policies of one man, one vote on common rolls," he warned white voters, would "inevitably lead to majority rule and thus the domination of minorities."

Mr de Klerk's own party's "five year action plan" for modified ethnic group-based power sharing stems from what he termed "a system of concurrent majorities" and rejection of Westminster-style simple majority rule. He later indicated that it might take more than five years before blacks gained similar voting rights to other races.

Mr de Klerk made clear that President P W Botha, who did not attend yesterday's congress, would not be taking an active part in the election campaign. He said homelands would remain key building blocks in the constitutional framework and that he "did not want to be tied down to a timetable on black voting rights." He added: "It may take longer than the next election."

Despite these clear indications that Mr de Klerk's promise of a "new South Africa" is likely to be a long time in the making, he also made clear the party was now united around a generally "reformist" line.

The National Party will attack the Conservative Party for its "negative and unrealisable policies" rather than compete in bigotry. In particular he indicated that the party would demand that the CP reveal the boundaries of its proposed white state. The Conservative Party, led by Dr Andries Treurnicht, has, up to now, kept its plans deliberately vague so as not to deter white voters in areas which might be hived off to blacks.

Meanwhile the ruling party's five-year "action plan" was dismissed by Dr Denis Worrall of the Democratic Party as "a plan to entrench apartheid." The Coloured Labour Party termed it "unacceptable for perpetuating the artificial formation of groups on a racial basis."

The Conservative Party denounced it as making black majority rule inevitable and making whites prisoners of a constitutional system they were unable to change.

Uno battles against his image as a womaniser

By Ian Rodger in Tokyo

JAPAN'S Prime Minister Sousuke Uno met groups of religious leaders and women executives yesterday in a bid to overcome his recently acquired image as a womaniser. However, widespread criticism of Mr Uno's erratic behaviour earlier this week persisted.

Mr Masajuro Shiokawa, the chief cabinet secretary, said Mr Uno's expression on Tuesday night of a desire to resign was "the result of too much alcohol and was merely a complaint."

The Prime Minister appeared relaxed at the meetings perhaps because rumours that a weekly news magazine was to publish fresh accusations that he had had an affair with a 16-year-old trainee geisha proved to be unfounded.

The magazine, Focus, appeared this morning with nothing more shocking than a picture of Mr Uno and a report that it had been unable to substantiate the story of the 16-year-old. The editors had been surprised by the flood of inquiries on the matter on Tuesday evening, including one from the Prime Minister's office.

Most of the large factions in Japan's ruling Liberal Democratic Party (LDP) held meetings on Wednesday and agreed that Mr Uno should be persuaded to remain as Prime Minister at least until after the economic summit in Paris in mid July and the elections for half the seats in the upper house of the Diet on July 23. This decision was seen as reflecting more the difficulty of finding a replacement than of demonstrating any confidence in the Prime Minister.

It may prove difficult for Mr Uno to stay in power even that long if the LDP fares badly, as expected, in elections for the Tokyo metropolitan assembly on Sunday.

The chairman of the Japan Socialist Party, the largest opposition group, announced the party was aiming to reduce by more than half the number of LDP seats in the upper house elections, thus ending the ruling party's majority.

Mr Tsuruo Yamaguchi said the party would then submit a bill to repeal the unpopular consumption tax introduced on April 1 and which is largely responsible for the LDP's unpopularity. It would then propose increases in capital gains taxes on share and property transactions to offset the loss in revenue.

Ruling party leaders running scared, Page 5

OECD forecasts 'big industrial slowdown'

Continued from Page 1

age rate of 6 to 7 per cent in 1989-90. This would be slightly higher than the level recorded between 1983 and 1987.

The OECD says that both the British and US economies would be expanding at rates below their medium-term potential over the next 18 months. It forecasts a slowdown in US growth to 2.25 per cent next year from 3 per cent in 1989.

Such slower growth should help to damp inflationary pressures.

However, in Britain's case, the OECD warns of the dangers of a wage-price spiral.

Its forecasts suggest that individual pay packets in Britain will grow by 8.25 per cent this year and by 8.5 per cent in 1990. This would be faster than in the other G7 nations.

At a press conference in Paris, Mr David Henderson, the head of the OECD's economics and statistics department said the British Government would have an easier task reducing inflation if public opinion were on its side.

In its Economic Outlook, the OECD says the recent pick-up in UK inflation and the deterioration in the current account balance of payments showed the need for improvements in the supply side of the British economy.

It calls for the removal of rigidities from the labour market, improved employment training and education, greater competition in professional services, enhanced regional mobility of labour and capital and more neutral tax treatment of household saving

Thatcher rejects Delors plan for economic unity

Continued from Page 1

acceptable to the House of Commons or to a number of other European parliaments.

Britain had "won the day" at Madrid, said Mrs Thatcher, adding that no definition had been agreed of what was meant by economic and monetary union. The Government would present its own proposals to the Intergovernmental Conference, which France, Italy and West Germany are expected to call next year. The Treasury will now start work on an alternative plan, but Mrs Thatcher provided a clear preview of the loose system of enhanced policy co-ordination that Britain will be looking for.

Apart from the issue of national sovereignty over fiscal policies, she questioned the desirability of a single European central bank system and common currency and stressed the need for voluntary rather than legislated policy co-ordination.

Quoting from a recent speech by Mr Karl Otto Pöhl, president of the West German Bundesbank, Mrs Thatcher said there were other ways, apart from that proposed by Mr Delors "of going progressively towards a definition of economic and monetary union by consistently following similar policies but without [central] direction."

Her comments on the EMS emphasised the significant shock to the system that the lifting of exchange controls by other EC governments might bring. She also stressed that eventual British membership would depend on other governments

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio		-	-	Dubrovnik	S	25	77	Malta	S	29	84	Rhodes	S	27	81
Algiers	S	31	88	Edinburgh	C	15	59	Manchester	S	15	59	Rio de Ja		-	-
Amsterdam	R	13	55	Faro	S	25	77	Manila	C	34	93	Rome	F	25	77
Athens	S	29	84	Florence	F	28	82	Melbourne	S	14	57	Salzburg	S	21	70
Bahrain	S	35	95	Frankfurt	C	21	70	Mexico City	C	23	73	San Francisco	C	14	57
Bangkok	R	30	86	Funchal	S	23	73	Miami	S	24	75	Seoul	S	29	84
Barcelona	F	24	75	Geneva	F	19	66	Milan	C	21	70	Singapore	F	32	90
Beirut				Gibraltar	F	23	73	Montreal	S	15	59	Stockholm	F	19	66
Belfast	F	14	57	Glasgow	F	13	55	Moscow	S	30	86	Strasbourg		-	-
Belgrade	F	20	68	Guernsey	Fg	15	59	Munich	C	19	66	Sydney		-	-
Berlin	F	21	70	Helsinki	F	22	72	Nairobi	F	21	70	Taipei	F	34	93
Biarritz		-	-	H. Kong	F	31	88	Naples	S	29	84	Tangier	F	28	82
Bombay	Dr	26	79	Innsbruck	F	21	70	Nassau	C	31	88	Tel Aviv	S	28	82
Bordeaux				Inverness	C	12	54	New Delhi	S	36	97	Tenerife	S	25	77
Brussels	Dr	15	59	Islamabad	C	37	99	New York	S	19	66	Tokyo	F	31	88
Budapest	C	21	70	Istanbul	F	26	79	Nice				Toronto	F	15	59
B. Aires	C	15	59	Jakarta	C	32	90	Nicosia	S	27	81	Tunis	S	30	86
Cairo	S	32	90	Jersey	R	15	59	Oporto	S	26	79	Valencia	C	27	81
Cape Town	C	14	57	Jo'burg	S	21	70	Oslo	S	12	54	Venice	S	24	75
Caracas	C	27	81	Lima		-	-	Paris		-	-	Vienna	S	21	70
Casablanca		-	-	Lisbon	S	25	77	Peking	S	26	79	Warsaw	C	19	66
Chicago	C	17	63	London	R	12	54	Prague	F	19	66	Washington	S	23	73
Cologne	C	19	66	Los Angeles	F	15	59	Reykjavik	S	11	52	Zurich	F	20	68
Copenhagen	R	15	59	Luxembourg	R	15	59								
Corfu	S	27	81	Madrid	S	30	86								
Dallas				Majorca	S	27	81								
Dublin	C	14	57	Malaga	F	25	77								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Italian stake in Salomon

Continued from Page 1

buying a stake, but this was necessary to strengthen its position in Europe, a market which was "very exciting but rather complex."

"This alliance will allow us to combine complementary strengths in distribution, product creation, technology and dealing capabilities," he said.

For San Paolo, the deal marks a further stage in its strategy of forming alliances with foreign financial institutions in order to extend the range of its services and its geographical reach. It already has stakes in Hambros, the UK merchant bank, and Compagnie Financière de Suez of France.

Mr Gianni Zandano, San Paolo's president, said that San Paolo and Salomon had spent two years discussing the alliance in a succession of meetings in New York, Venice and Turin.

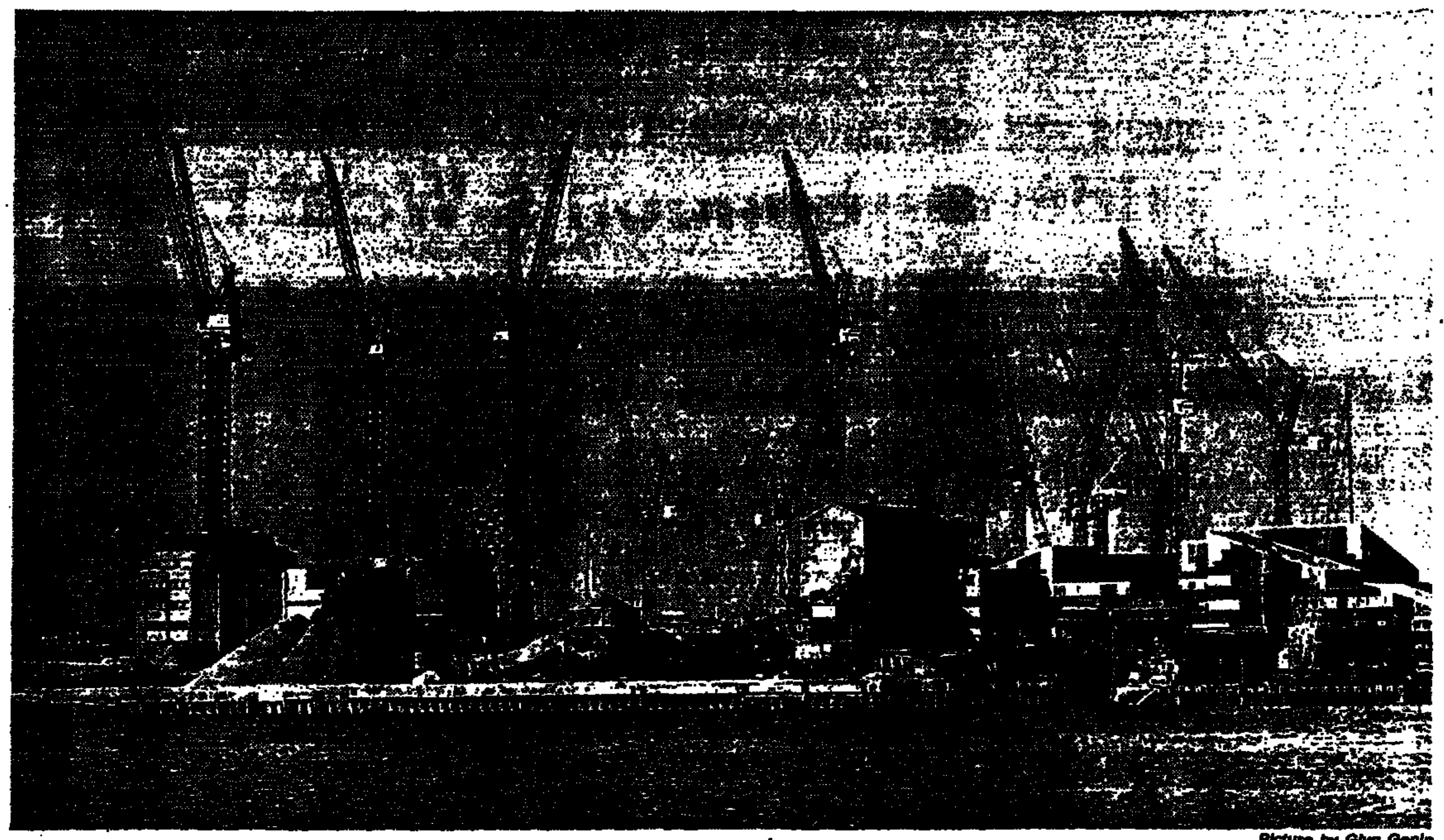
"We got to know each other well and we regard it as an honour that Salomon has chosen us as the basis for opening its European strategy," he said.

SECTION III

FINANCIAL TIMES SURVEY

While the demand for office property in the City of London appears to be slowing down, the picture is slightly different beyond the Square Mile in the West End. Manchester, Leeds, Birmingham, Bristol and Glasgow are also areas to watch. **William Cochrane reports.**

The broker's day is over



Picture by Glyn Genin

OFFICE PROPERTY

IS THE OFFICE property boom on shaky ground? Are developers too ambitious, and bankers too easy with other people's money? Have overseas investors been beguiled by a temporary upswing in UK economic respectability and are the agents, marketing new office space for profit, selling pipe-dreams rather than the facts?

In the year to September 30, 1988, office rents grew by an average of 30 per cent, according to Mrs Honor Chapman, head of research at Jones Lang Wootton. In the year to April 1989 office rental value growth had subsided to 25.3 per cent, according to figures from the Investment Property Databank, and the monthly rate was down to 1 per cent.

Averages like that leave plenty of room for extremes. Mr David Fletcher, chairman and chief executive at Fletcher King, notes in the firm's new Investment Report 1989 that, while the much predicted "City property crash" did not take place last year, the City of London office market showed a marked slowdown in rental growth.

While he is sanguine about prospects elsewhere, Mr Fletcher is quite bearish on the City fringes, and on London's Docklands, where much comment recently has centred on perceived problems into and out of the Isle of Dogs, by road, rail or underground: "There is extensive construction taking place and supply will undoubtedly far outstrip demand," he says, "with rents likely to plateau at best, but more than likely fall."

On development, he says that the biggest mistake any foreign investor can make is to judge a new market abroad on the criteria he adopts at home. "I fear that this is what Olympia & York may have done at Canary Wharf," he says.

The Canadian developers, who have taken over in one of Docklands' most ambitious schemes, may well be able to "buy" North American tenants, he says. O&Y demonstrated this ability in Manhattan, and it has succeeded in convincing Merrill Lynch, the US investment bankers, to move to Canary Wharf from Ropemaker Place on the City's northern fringe. "But it is unlikely," says Mr Fletcher "that this will happen with domestic occupiers."

Mr Christopher Walls and Mr Alastair MacDonald, property analysts at Kleinwort Benson research, estimate that the vacancy rate in the City of London will be 11 per cent by the end of 1989, reaching nearly 14 per cent in 1990 – "levels which were not seen even in the aftermath of the stock market and property market collapse in 1974." They believe that rents will decline, with most pressure falling on second-hand space, as a two-tier market develops.

Mr David Price, the partner in charge of Hillier Parker's City office, takes issue with them. "Demand has held up well," he says, "despite gloomy reports that the City is awash . . . The fact remains that in the whole of Central London there are only five schemes which can provide buildings in excess of 200,000 sq ft for occupation within the next 12 months." He says that there are at least twice that number of occupiers actively in the market, or planning moves within that timescale.

Mr Price acknowledges that the comparison would be less comforting if the buildings were those of 100,000 sq ft and above; but he contends that if London is to be Europe's financial centre after 1992 it will have to upgrade the scale and quality of its buildings, whatever the level of domestic demand.

He does think that the vacancy rate of second-hand stock in London will increase consistently, but that this would be consistent with a healthy market in which old space will be redeveloped if it does not measure up to occupiers' requirements. "Manhattan," he estimates, "has a 15 per cent vacancy rate."

The story is different, apparently, outside the City. In London's West End, supply and demand have been distorted by the prospect of 500,000 sq ft of Mayfair reverting to residential use over the next few years. In March Ladbroke's development arm claimed a record £60 a sq ft rent for a West End office building; this month it said it had made a new record: £73.60 a foot for three floors in a new 18,000 sq ft building at the corner of Portland Place and Chandos Street.

Mr David Fletcher expects good growth rates in the "Western Corridor" and the "Golden Triangle" to the west and north-west of London, but the really good performances will come from major regional centres – "such as Manchester, Leeds, Birmingham, Bristol and Glasgow where rentals have been at comparatively low levels during the last 2-3 years."

Regional centres are swamped by excess demand, rather than supply, but there is enough in the development pipeline to forecast a slowing of capital growth in the early 1990s. Indeed, some of the developments, which must have been encouraged by the readiness of bankers to put up loan capital for schemes, are big enough to excite concern.

In Birmingham, £100m proposals by Speyhawk and British Rail aim to put 900,000 sq ft of space on to a car park next to Snow Hill station. This will represent 6 per cent of the city's entire stock.

In Leeds, Mountleigh's plans for 500,000 sq ft on the old Fairbairn Lawson works, Town Centre Securities' 300,000 sq ft on the Elida Gibbs site, were dwarfed by the Canadian-Iranian Triple 5 which bid for some 3m sq ft of office space in a mixed development south of the city centre.

Sentiment can change rapidly in this business. In Leeds, Triple 5 were discouraged, officially. In the City, Conrad Ritblat's offices partner, Richard Chaplin, declared in January: "Dealing floors, regularly 'flavour of the month' only a couple of years ago, are now virtually obsolete. In the months ahead, as the City rationalises its trading operations still further, more and more space of this nature will become available."

It happens that we heard subsequently of the former Billingsgate fish market, a handsome building refurbished by architect Mr Richard Rodgers and intended for a dealing operation floor by Citicorp; that plan had been put on ice and Billingsgate had graduated into a "leisure" proposition.

There has been concern, too, about the bankers. "The general availability of debt finance for real estate opportunities in the UK, from both existing and new sources, has increased dramatically over the last 18 months, particularly in respect of projects with a total senior debt requirement of up to £10m," says Mr Peter Welborn, a partner of Knight Frank & Rutley.

Mr Welborn, responsible for financial services at KFR, notes also that building societies have emerged as a growing force in the commercial property market, in direct competition with the established providers of debt. "Loan to value ratios are continuing to move close to 100 per cent," he says, "and deficit financing has once again returned to the commercial property market."

The plethora of funding methods developed since insurance companies and pension funds were found wanting, and unwilling to provide equity for developments in the early 1980s, speak well for the increasing financial maturity of the property developer and chartered surveyor.

But there is serious concern about the characteristics of so-called limited recourse loans; about how well the providers of 100 per cent debt/equity funding packages really know the market they are getting into; about high interest rates and their effect on development economics.

What are the overseas investors to make of this? Frequently, they are the people putting the equity into the funding equation; the proponents of development say that Japanese, and the Scandinavians have their own particular reasons for moving into UK property – mainly, the lack of investment and development opportunities in their home markets – and that they will not be put off by a declining pound.

Are the agents just too confident? "That might be true if we just had buildings to let," says Mr David Price of Hillier Parker, "but we advise developers and investors as well.

"Put it this way," he says, "if we were just selling second-hand cars, we might have to say that they were all 'good little runners'. But if we're advising the car manufacturer to invest in plant, then it's a different story. We bid for the Bishopsgate goods yard [close to Rosehaugh Stanhope's Broadgate development on the City's North-eastern fringe] as recently as February. We won it, for 1½m sq ft of new space if the planners will let us.

"Along with the Jones Langs and the Richard Ellises, we don't want to do one big deal and retire to a rectory in Norfolk; we want to be here in 30 years' time. In any case," he observes, "the market is softer than it used to be. The day of the broker is over."

CONTENTS

Editorial production: Roy Terry

Forest of cranes signals the extensive construction work in Docklands: a danger that supply may outstrip demand

William Cochrane looks at financing methods

Funding gap widens

NATURE, they say, abhors a vacuum; it must be despairing of the City of London office development market which has *been trying to bridge a funding* gap since the early 1980s. In recent years, the chasm has yawned wider and wider.

Before the City's office development boom took off in mid-decade, developers had difficulty obtaining institutional funding for schemes costing more than, say, £20m. Afterwards, the funds were diverted by better short-term prospects in the stock market.

Unitisation, bringing single properties or groups into multiple ownership, was promoted as a solution to the problem, and the redevelopment alongside Billingsgate fish market on the south-east fringe of the City was sold to groups of investors in this way; following *that, unitisation as an invest*ment medium seems to have been developing very slowly.

Meanwhile, a nationwide development boom took over from the Central London initiative, conventional forms of funding were modified, and other sources appeared. Stephen Barter, a partner in agents Richard Ellis and a director of Richard Ellis Financial Services (REFS), lists them in his introduction to a recent book* on real estate finance:

Equity finance:

● Direct property investment by UK institutions has seen an effective retreat by pension funds; among the more consistent, if still laggardly insurance company investors, Norwich Union has been notable for its *willingness to accept opportu*nities in the office market — and it has made some very good deals as a result.

● The onset of overseas equity investors, particularly Japanese, Scandinavian and North American companies; a prime example of this was the mid-1987 sale of Bracken House, former home of the Financial Times, to Ohbayashi Corporation of Japnan for £143m cash.

● Investment in property shares. Before the autumn, 1987 stock market crash, UK institutions contributed between a £1.5bn and £2bn to equity issues made by property companies.

Debt Finance:

UK banks were scarred by Third World debt, and aware that the margins on property lending were significantly greater than for mainstream corporate lending. They contributed to a £2.2bn rise to £23.6bn in loans to property companies in the three months to end-February. This figure *also included:*

● Overseas banks, a growing number of them with branches in London eager to participate in, or lead syndicates;

● Building societies which, as a result of the Building Societies Act 1986, can lend up to 10 per cent of their loan portfolio into non-residential opportunities. Abbey National was the first major lender from this sector, providing a £40m facility to Lysander for the Bishopsbridge mixed-use development at Paddington, west of central London.

Stephen Barter

● Limited recourse lending, a ploy imported from the US, in which the recourse of the bank is limited to the project itself, thereby restricting the potential liability and risk to the borrower. Savills Financial Services, in a recent publication, Financing Property 1989, says that limited recourse *loans are often tied in with:*

Off balance sheet financing:

● This type of arrangement is designed to help the developer whose capital base is small in relationship to the amount of development which it is undertaking. The most celebrated example of this, recently, has been the financing deal put together by Kleinwort Benson for Speyhawk, in a £55m funding of the latter's 180,000 sq ft King's Cross House scheme on the northern fringe of Central London.

Mr Barter's list continues with:

The joint venture revival:

● Here, the developer takes a partner which could be a an institution, a property company or an international investor to provide most of the equity finance, in return for a share of the profits; the joint venture vehicle will raise the required debt.

New funding vehicles:

● Agents like Jones Lang Wootton and Knight Frank & Rutley have links with *building societies, the Alliance* & Leicester and the Woolwich respectively. REFS is involved with Barclays de Zoete Wedd in the Property Equity Fund, which aims to provide 100 per cent finance for developments from a single source; and, in another venture, in a partnership with the Bayerische Hypobank.

The capital markets:

● Financial products in this category include multiple option facilities, tender panel loans, Eurobond issues and commercial paper programmed for property companies; and Rosehaugh/Greycoats's financing of 1 Finsbury Avenue.

Securitisation:

● Takes in unitisation and means the conversion of assets into tradeable paper securities. REFS is identified with the PINC, one of the vehicles created for this purpose, and Mr Barter thinks that we are going to see some financing schemes, structured around PINCs but on a private basis, as an efficient joint venture partnership. These, he says, would be followed by public PINCs issues.

Problems remain. A number for observers think that the problem of replacing medium-term debt with equity will have to be faced. They say that so-called limited-recourse loans are typically designed to cover the construction period, and up until the first rent review.

Peter Welborn, a partner of *agents Knight Frank & Rutley* responsible for its financial services arm, is not 100 per cent sure abouet the trend to debt/equity funding packages. "The number of providers of 100 per cent of development finance, particularly for commercial projects, in return for an element of participation in project profit, have grown substantially," says Mr Welborn. "Margins have been squeezed and in some cases there is a question as to whether the risk/reward equation has been fully addressed."

Savills picks up on the high interest rate problem. Its figures, based on funding arranged, rather than drawn down, show that in the first quarter of 1989 the property sector arranged a total £3.9bn of funding, £1.36bn less than in the previous quarter.

**Real Estate Finance, published by Butterworths, £50.*

Short-term investment potential of office property looks attractive

London's West End has star quality

AS AN INVESTMENT, office property is back in fashion, and performance forecasts suggest *that it should stay attractive* in the short term; the question is whether, as the short term progresses into the medium, events will keep the forecasters happy.

A report* from Rupert Nabarro's Investment Property Databank (IPD) said recently the office market showed a total return of 31 per cent in 1988, up from 28 per cent in 1987. Agents Richard Ellis are forecasting a 29 per cent return from the sector for the year to February, 1990.

IPD noted that, since 1979, financial and business services in the UK have shown a growth in output of 82 per cent, and a growth in employment of 50 per cent. The effect *on rents has been most marked* in the past three years, although investment performance has seen swings, roundabouts – and seesaws.

The star performer was London's West End. Forced up by occupational and investment demand, shortage of development stock and the prospect of 500,000 sq ft of Mayfair reverting to residential use over the next few years, this area saw capital growth of 41.3 per cent, and a total return of 47.6 per cent in 1988.

The year 1988 went out with a whimper. There was some trepidation about 1989 but there is considerably more activity than predicted

The City of London, much more subdued after the crash of 1987, turned in a 19 per cent gain; Weatherall Green & Smith, in their 1989 Property Report published last month said that the year went out with a whimper. They looked ahead to 1989 with some trepidation, but they are happier now: "There is considerably more activity than many would have predicted, substantial lettings are still being achieved and an air of optimism prevails."

Meanwhile, IPD also noted that the ripple effect of economic recovery moved north and west into provincial property markets last year. Total returns in 1988 exceeded 30 per cent in a wide range of centres, including Leeds, Edinburgh, Sheffield, Manchester and Plymouth.

Adrian Wyatt

The headlines continued to be made in London. Healey & Baker commented in their March 1989 quarterly investment report on the contrast between the City and the West End at the same time pointing up a fundamental change in the investment market.

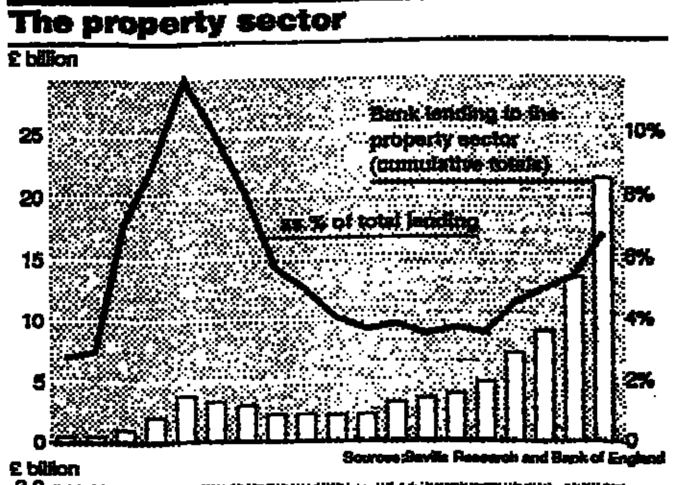
Like WG & S, they seemed to like the City of London. They said that in contrast to Mayfair, where both UK and overseas funds were buying in a market where supply was "unhealthily" below demand, the main investors in the City are overseas buyers; and that an increasingly large number are now long-term investors, looking at their acquisitions in the expectation of medium- to long-term rental growth.

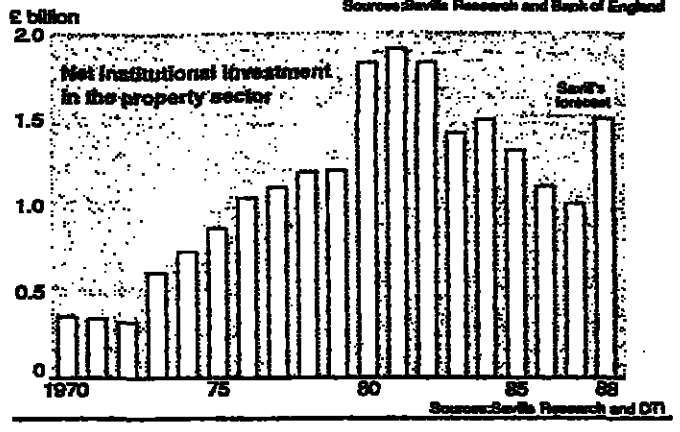
Opinion is a two-way market. It can be argued that foreign money is keeping the Central London office investment market afloat; and that some of this money is "hot" or not so cool as H&B are arguing.

Last December, a legal briefing from solicitors DJ Freeman on foreign investment in UK property noted that Rodamco, the Dutch fund which forms the property arm of the eminently respectably Robeco group, was known to have attracted "passive" investment from all over the world. Rodamco was bidding for Hammerson, one of the UK's biggest property companies, at the time.

In addition, older hands in the property game will remember agents denying that there was a problem with office supply, and demand in the recession-hit, early 1980s. There are agents now who acknowledge, and researchers who are hammering away at the theme of oversupply in the City of London office market. They say that the market has developed into two tiers, for new and second-hand space and that there is probable oversupply at both ends; that, so far, yields are stable but that worries are mounting over valuations in the coming years.

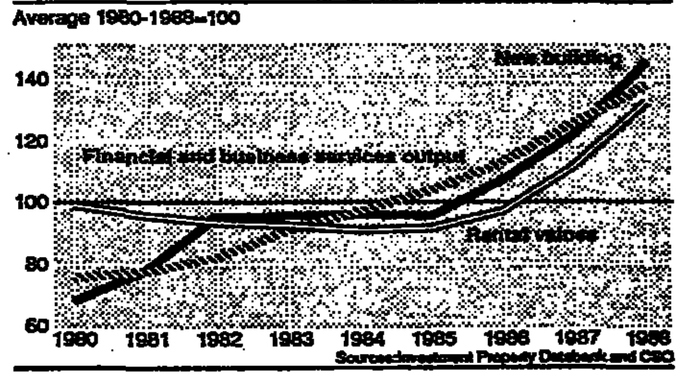
The property sector





Office market indicators

Average 1980-1988=100



Mr Adrian Wyatt, a partner in Jones Lang Wootton, thinks things have changed radically in the property investment world, and points up propositions which could move the market ahead, or into reverse.

The overseas influence is not likely to disappear overnight. "With the deregulation of world capital markets a building is not concrete and glass any more," says Mr Wyatt. "It's dollars, Deutschmarks or yen."

He thinks that the phenomenon of Japanese, Scandinavian and Dutch institutions and construction companies, exporting capital to invest in UK property, will soon incorporate US investment funds: "In America, financial regulations were interpreted until recently as saying that it was imprudent to invest outside the States," he says. "Now it's quite the reverse."

In Britain, meanwhile, investment professionals are worried by the threat of the unified business rate. Parts of the West End, they say, are looking at rate rises of 300 per cent.

They are also worried about the unease in the financial sector. Forecasts hold that growth in the market for financial and business services might contract from its recent specular levels to nearer 7 or 8 per cent a year; but within that the forecasters are trying to balance the slump in City stockbroking with a parallel rise in employment among chartered surveyors, accountants and solicitors.

The question about that is whether specialists in the land, accountancy or the law need City core locations; or whether they prefer the attractions of cheaper, but potentially high quality space on the City fringes, such as Broadgate or Spitalfields, and other locations like King's Cross or Paddington.

Mr Wyatt also notes that while average growth is strong enough in itself, some provincial office rents have doubled in the past 18 months. This might, in the years ahead, give some pause to the overseas investors, who have tended to concentrate mainly on central London.

Robert Hannington, a senior partner in the investment department at Knight Frank & Rutley, thinks that the growth of financial services in London will create continuing strong tenant demand as 1992 approaches – "which is, perhaps, reflected in some of the prices being paid by international investors," he observes.

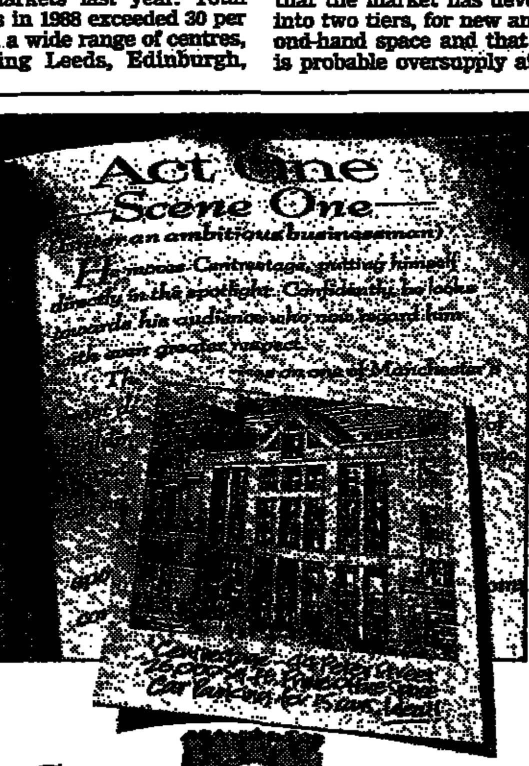
Yet the big office occupier, investing hugely in infotech and other office kit – and much less, proportionately, in the shell of the building – is more ready to demand its rights, even to pick up its trappings and walk, than ever before.

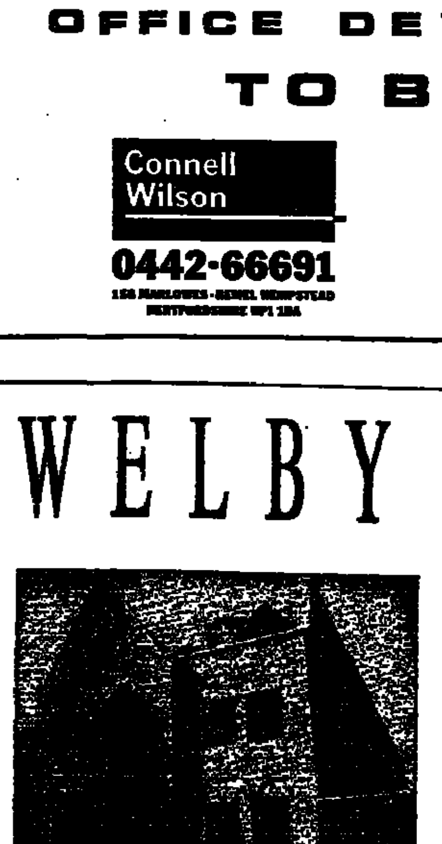
This could happen on the international stage. "The market will ignore the element of informed consumerism at its peril," says Mr Wyatt, who fears that London could see its position as Europe's international financial centre eroded by quiet, but persistent competition from Frankfurt, or Paris.

"There's zero room for complacency, in my opinion," he says. "If a common currency happens, and we're not part of it, that could seriously damage the London office market."

William Cochrane

**Property Investors Digest. Available, price £1,750, from IPD, 7/8 Greenland Place, London NW1. Tel: 01-482 5149.*





OFFICE PROPERTY 3

David Lawson reviews the West End scene

Rent levels nose ahead

THE favourite sport among London office developers is a tit-for-tat between the West End and City of London over which can claim Britain's highest rent levels. It would have been no contest a couple of years ago, when the City seemed literally paved with gold; now the upstart westerner has nosed ahead, and could stay in front for the foreseeable future.

Values for the few large buildings ready to come on stream are already estimated conservatively at £70 a sq ft – which is about what the City has strained to on a landmark scheme. But they could go higher as desperate tenants fight informal tenders for this almost non-existent residue of vacant property.

Agents expected the market to catch its breath until next year before moving above the £68.50 a sq ft achieved by a sub-letting in Lansdowne House, the Berkeley Square block which has itself broken the mould by exceeding City levels when taken by Saatchi for £62.50. But STC has jumped the gun, paying Ladbroke the equivalent of an astonishing £73.60 a sq ft for the above-ground floors of a new 18,000 sq ft block on the Langham Island site across Portland Place once reserved for the BBC.

Nor are other record-breakers far behind. The Post Office is forking out £65 a sq ft for offices in St James's Square, continuing the tendency of government departments to set standards for others by paying top whack for its property. Meanwhile that former black hole in the market called Victoria has seen MEPC net £50 a sq ft for its Eccleston Square block in a pre-let by Blue Circle – which seemed to be obsessed with moving away from london to save money only a few years ago.

This is demand gone mad in an area which has practically no modern space available for traditional service tenants bursting out of their existing homes as they expand in line with the general economy. The figures for space taken over the last couple of years seem to belie this fervour; Healey & Baker points out that lettings fell by 65 per cent to 4.4m sq ft last year. But this is merely because there was hardly any space to let.

The buoyancy of company profits has particularly affected prime rents. Businesses have been keen to maintain a prestige headquarters in the area, pushing up the value of top-slice buildings by 34 per cent a year since 1985 compared with an average of 15.5 per cent a year across the board. Prime rental growth is now slowing but a lag effect should see average costs increase by 20 per cent this year, says H&B.

The buoyancy of company profits has affected prime rents

The difference between prime and average shows just how wide the market is in the West End. In fact, a large proportion of premises are cramped and poky offices, often in poor locations. At least they were poor locations. The West End is spreading into areas such as Victoria and north of Oxford Street. The Ladbroke rent shows how Portland has emerged from nowhere as a prime area and the fact that it has become a source of special reports by agents means it has really taken off.

But vacancy rates are already down to 2 per cent in the Northern Quarter, as Debenham Tewson & Chinnocks has dubbed this strip between Marylebone Road and Oxford Street. Large premises are hard to find and development is running at only around 300,000 sq ft a year until beyond 1992, says Philip Gray of DTC.

As rents rise, some tenants may find themselves costed out. They will not be alone. As Bill Monk of Jones Lang Wootton points out, existing tenants right across the West End will not have felt the effects of rising rents because modern leases allow five years between review. But this silent majority is about to feel the cold draught of reality.

Most are small concerns. H&B points out that the average size of West End lettings over the last four years was less than 8,500 sq ft – perhaps enough space for 50 or 60 staff. Some of these could find it a strain when reviews come up. A Mayfair/St James's tenant, for instance, will have to plan for increases in line with 73 per cent compound growth since 1985.

But the giants will also be in for a shock, says Mr Monk. A recent JLW survey showed that more than 80 per cent of companies employing over 200 people were paying rents of less than £25 a sq ft, and most face reviews in the next three years.

This could lead to a spate of relocations, but that will be more difficult than in the past. The western route is clogged because Hammersmith has little space and rents are rapidly approaching £40 a sq ft, says JLW. Victoria is almost closed for entry for the moment, with most property sunk into pre-lets, although more than 840,000 sq ft is under construction and another 530,000 sq ft proposed, according to Rachel Unsworth at Cluttons. If the Government can keep its hands off this space – which has proved almost impossible in the past – there may be some available for relocators.

This has proved a spillover area for tenants pushed put of Mayfair and St James's by soaring rents, as well as a refuge for some large financial groups unable to find large space elswhere. But rents will not be much easier here in future, after breaking the £50 barrier. One advantage may be the limited impact of rate revaluation in this area, says Cluttons.

The main body of the West End could be hit hard by the introduction of uniform business rate next year, as the accompanying revaluation will reflect the enormous growth in values since the last reassessment in 1973. It will be a double blow for those occupiers already facing huge increases in their next rent review and could be the straw which broke the camel's back for many – particularly if company profits start to fade.

The 6m sq ft proposed at King's Cross and regeneration around Paddington canal basin and goods yard could be a welcome new home for those either pushed out of the centre or unable to find new space to move in. Others may jump further – north to White City or south to the rapidly developing south bank zone. Lack of staff as much as shortage of land may prove a draw. Transport nodes such as Paddington, Waterloo and Vauxhall – all of which have major developments proposed – will be a lot more attractive to commuters.

With City rents weakening, companies may even aim eastwards – or perhaps trek over to docklands. Mr Monk believes this will happen only if cost differences become extreme, but the way the West End is winning the tit-for-tat battle wih the City, this might not be too far away.

THE CITY

Uncertainty and some panic

THE bulls and bears are locked in combat once more over the future of the City of London. Entrenched in the bunkers of certainty, they lob alternate messages of joy and impending doom into a confused mass of investors and tenants, creating even more uncertainty and panic.

The division of opinion is almost predictable. Financial analysts have a monopoly of long faces, forecasting a tidal wave of new office buildings which will hit the Square Mile with an impact reserved by ecologists for sea-level changes. Meanwhile, agents are going through their Churchillian phrasebook, promising that things are not as bad as they seem and, in any case, we will all soldier through.

Even bulls with the longest horns do not ignore the fact that the City is set for one of its periodic bouts of over-indulgence. Development plans laid when financial services and professional groups were growing like Topsy are still coming through the system as many groups settle back into more modest expansion. The crunch has been widely predicted for some time between mid-1991 and early 1992, depending on how supply and demand figures are estimated.

The sums vary from source to source, partly because the City's boundaries ebb and flow from one to another and partly because estimating demand is more of an art than science. For instance, Baker Harris Saunders, which has carved out a reputation as a City expert, predicts completions of 5.6m sq ft this year, 6.3m next year and 5.8m in 1991. The research group APR, used extensively by investors and agents for forward planning, plumps for figures of 6.3m sq ft, 7.2m sq ft and 3.2m sq ft respectively.

This second group is the main source of ammunition for the latest barrage emerging from bearish trenches. Chris Walls, an old campaigner among teenage scribblers, sets up a gloomy scenario with his Kleinwort Benson associate Alastair MacDonald which sees rents falling over the next few years. This blasphemy has already turned to accepted faith on the stock market, where developers with heavy City commitments are seeing their shares traded at record discounts to asset value.

Messrs Walls and MacDonald calmly state what they see as the obvious: unprecedented levels of development combined with muted demand will leave more than 10 per cent of the City's office space empty by the end of next year and almost 14 per cent without tenants in 1990 – a worse position than after the 1974 crash. Current levels stand around 8.5 per cent.

"It is over-optimistic to talk in terms of rents stabilising if that meant top levels would remain at the records achieved in the last year or so," they say in a special report. "Rents are heading in one direction – and that is down."

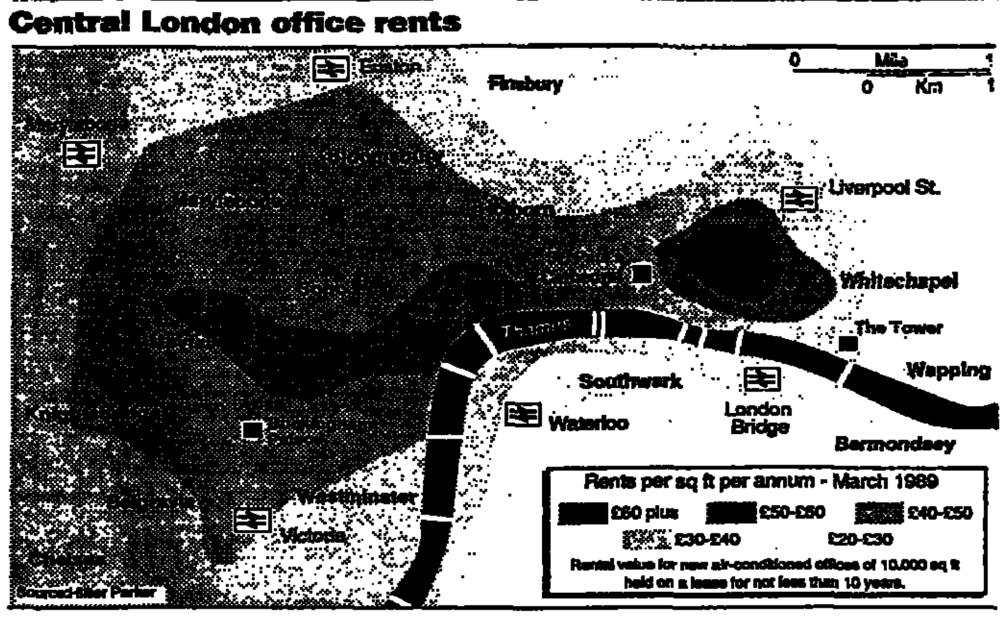
None of the bulls' propaganda seems to penetrate this steely resolve. The potential impact of a unified European market in 1992 is brushed aside: "We tend to take a rather cynical view of the potential impact. In any case, we have allowed for this by assuming a continued high take-up well in excess of pre-Big Bang levels." Even the influence of foreign investors, who are "hot" for London and keeping yields stable at 5 per cent, finds scant significance in the Kleinwort scenario. Outsiders like the Japanese and Scandinavians tend to buy "trophy" buildings and take a very long view.

No doubt the analysts would put Ohbayashi's £143m price for Bracken House, the former headquarters of the Financial Times, in that category. Valuers are thrown into turmoil by such "overpriced" deals which appear to set new levels for the City – just as the likely £75 a sq ft that Industrial Bank of Japan will pay for the space will screw up rent comparisons.

The Barclays de Zoete Wedd property team, which gives a similarly jaundiced view of the City market in its spring review, also warns that such investment may be transitory. The US pattern shows that Japanese investors establish pole positions with high prices – perhaps linked to business interests at home – but do not necessarily compete so fiercely

Continued on Page 12

Central London office rents



David Lawson traces the path of developers round the regions

Rents in an upward spiral

DEMAND for more and better offices has swilled out into the provinces like water from a choked bathtub ever since the taps of expansion were turned full on by the mid-eighties' economic revival. But the islands of surplus space left over from previous booms were so large that it took time before they were covered. Now most regional centres are drowning in excess demand.

Rents which languished for years at levels too uneconomic to attract investors north of Watford are floating upwards faster than anywhere except the most overheated parts of London. The time-lag so obvious in house prices, which did not soar until long after London took off, is being reflected in commercial values.

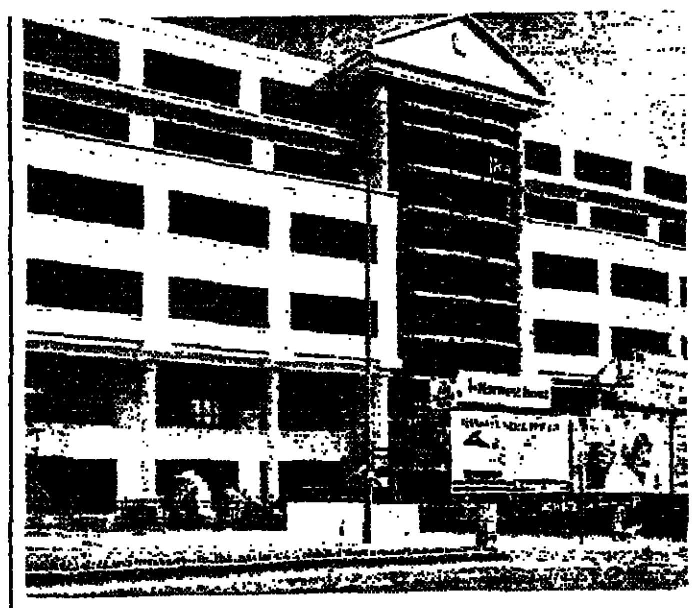
Since 1986, rents in all except two of the 50 centres monitored by Jones Lang Wootton have grown, averaging 30 per cent across the board last year. The hottest spots were still in the south-east in 1988, with huge differentials between a centre such as Hammersmith – where rent boomed more than 70 per cent to £30 a sq ft – and Nottingham's £7 a sq ft limit.

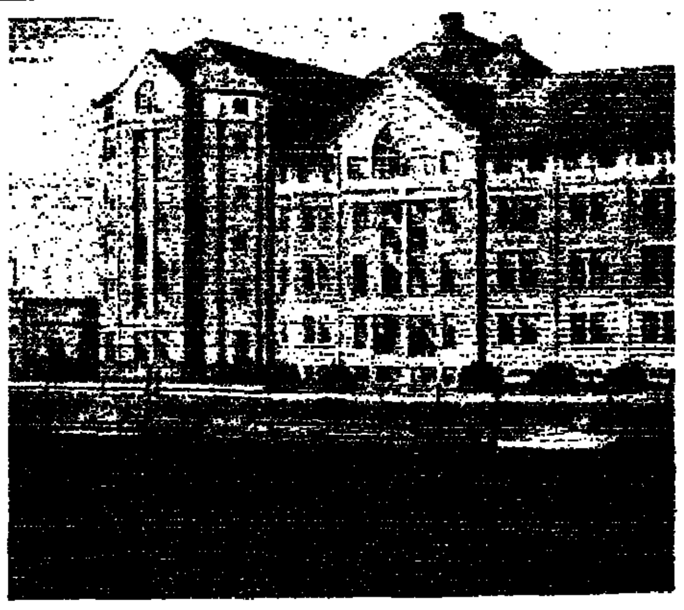
But growth is starting to slow in the overheated south-east, while JLW predicts average increases of between 20 and 25 per cent in most regional centres. Some spots are even hotter. Birmingham, for instance, saw top rents boom by more than 75 per cent last year and is still climbing.

Developers are working feverishly to catch the tide. Birmingham has 2m sq ft on the drawing board. Leeds twice that amount and Bristol and Manchester some 1m sq ft, according to Mr Michael Dow, of Jones Lang Wootton. Not all will pass the planners, but there is enough potential to predict a slowing of capital growth in the early 1990s.

Some buildings may also hang around to form the next generation of islands, because the occasional developer has not learned that provincial tenants are demanding the same high-quality space their cousins in London expect.

One great uncertainty is how re-emergent town centres will react to a plethora of business parks, which because of changes in planning rules will be able to provide office space away from the noise and congestion. More than 10m sq ft is planned around Manchester alone by the mid-1990s, according to Richard Ellis.





Helical Bar developments in Cardiff (left) and Bristol (right): two cities that are feeling the M4 effect

HEATHROW/M25

Penalty for success

LONDON'S orbital motorway is turning into an obstacle course of jams and red lights as traffic levels exceed wildest expectations. But developers also face adjustment to a more sedate pace as the string of towns around the M25 begin to pay the penalty for their own success.

Rents have soared, particularly around the western sector where the motorway has emphasised existing locational advantages of the M3, M4 and Heathrow airport. Mr Russell Meadows, at agents Rogers Chapman, says £25 to £30 a sq ft is now the norm for well-designed office blocks in centres such as Staines, Egham and Chertsey, while Uxbridge has hit the top of the range.

But this enormous expansion in values has squeezed the prospects for further development because funders are chary about how much prospective growth is left when a site is being bought at top rates, according to Mr Andrew Barrs at Brian Cooper & Co. This might be no bad thing, as millions of square feet of space are in the pipeline, including a vast amount of B1 business space which now competes with town-centre offices for tenants.

The picture is not consistent around the motorway, however. Some areas ar still struggling with planning and land-supply restrictions; others are returning to an equilibrium where location must be right to win tenants and good returns, says Mr Barrs. Global supply figures also hide some crucial shortages. Buildings of 10,000 to 20,000 sq ft, for instance, are hard to find because purchasers elbowed out developers while interest rates were still low enough to make freeholds attractive.

Values are unlikely to go much higher in the northern M25 centres, although as Healey & Baker points out, developers who bought sites at high rates are committed to quoting top rents. While demand is likely to remain strong, this may prove a problem in centres like Bracknell, Guildford and Heathrow, where oversupply may be a short-term problem. But Russell Meadows at Rogers Chapman is far more bullish about the clutch of buildings coming on stream along the Bath Road at Heathrow, pointing out that high specification schemes in such a sought-after area will assure success.

Even the 2m sq ft of B1 space in the pipeline fails to blunt his enthusiasm, considering the solid take-up levels. He quotes IBM's plans to take 350,000 sq ft of Rutland's 31-acre Bedfont Lakes development and the big lettings on Stockley Park as an indication that tenants can take large chunks of space off the market and make the supply figures look sparse.

YORKSHIRE

Extra-big thinking

PROPOSED office developments in Leeds have drifted into the sort of telephone numbers more associated with London. Mountleigh has plans for 500,000 sq ft on the old Fairbairn Lawson works and Town Centre Securities some 300,000 sq ft on the Elida Gibbs site. Not bad for a provincial town centre, particularly as neither development is on a prime central location.

But these schemes are thrown into the shade by an amazing proposal from Canadian-Iranian entrepreneurs Triple 5 for some 3m sq ft in a mixed development south of the city centre. The Leeds economy has returned to former glories and demand for space is soaring but such massive proposals appear to stray into dreamland, particularly as another 450,000 sq ft is already under way in the central area and only 250,000 sq ft was absorbed last year, according to Weatheralls. But the giants are long-term proposals geared to a belief that local demands and movement from the south-east will put the region under pressure in the 1990s.

Triple 5 could have been expected to think extra-big after being invited by the city council to look at the 100-acre site and then applying North American logic. It was also aiming far ahead, with a 15-year programme of phasing, but the council took fright and a much smaller development seems more likely. Meanwhile Mountleigh will wait for a pre-let before jumping into its newly-acquired taste for development rather than asset trading.

These fringe schemes are springing from a steady demand surge which Weatheralls say pushed rents from £9 to £12.50 a sq ft last year. Take-up would be higher but for shortage of modern space and many of the offices now going up are likely to pre-let at the asking rate of £15. This tendency to pre-let has become common in recent years when occupiers grabbed what they could when buildings were in short supply as developers waited for rents to reach an economic level. Now they have broken the barrier, a surge of construction is understandable, particularly with the power and resources of a new urban development corporation helping to sort out land assembly problems.

All the main Yorkshire centres are reflecting the same sort of drive generated by a rejuvenated local economy and potential movement out of the south-east. York, for instance, can tot up a massive unsatisfied demand from professional firms which has pushed rents over £10 a sq ft and as high as £15 a sq ft for small suites. Meanwhile, a group such as the National Curriculum Council has been attracted by the atmosphere and high-quality communications.

WALES

A bridge too few

THE Severn Bridge is crumbling under the weight of traffic never seen in planners' wildest dreams. Extensive strengthening and a second crossing will not be before time, as the trip across the estuary is no longer a psychological barrier to outsiders.

South Wales is finally feeling the M4 effect – although the final breakthrough needed the combined strength of surging Japanese investment, dockland redevelopments, and a co-operative drive by local authorities to create a financial centre.

Rents are modest compared with other provincial towns, with Swansea and Newport still offering developers only £5 and £8 a sq ft respectively on the best space. But values are leaping as fast as anywhere in proportional terms, feeding off buoyant demand from professional groups and a few significant relocators and refugees from the south-east. The decision by leading merchant bank N M Rothschild to open in Cardiff was a vote of confidence in its future as a financial growth centre

Pressure on the rents in the Welsh capital, which have boomed from £7 to £12 a sq ft in two years, seem likely to continue, particularly now the relocation circus is crossing the bridge. Tesco is the latest to adopt Cardiff as a new home, moving 500 jobs from Hertfordshire. National Provident is planning the same number and for the same reason – easier access to quality staff than overheated Kent.

Meanwhile Banque Nationale intends to double the size of the Chemical Bank mortgage services operation it took over. This is a significant decision, as CB was a pioneer relocation catch for Cardiff a few years back but it never successfully shook off rumours that it wanted to return to London.

SOUTH-WEST

Race for right spot

BRISTOL is making one of its regular transitions from feast to famine and back again, with more than 1m sq ft of offices under way as developers race to hit the right spot in the supply-demand cycle. Three years ago the same amount of empty space was hanging like an albatross around the city's neck, holding rents to £8.50 a sq ft or less. Today, after a bout of frenetic expansion by local business and another wave of newcomers, the slack has disappeared, and major schemes are geared to £18 a sq ft and more.

The remaining 44,000 sq ft at Quayside developed by Intercontinental Land Tritec (Helical Bar) is available at this level, after National Farmers Union Mutual Insurance paid £11.25m for the first tranche of 52,000 sq ft. Developers are betting there is more to come. In fact, Standard Life seems conservative in suggesting only £18-plus for the 105,000 sq ft it is planning on Redcliffe Street.

The test will be whether Bristol can absorb another round of hyperactivity rather than fall back into the old pattern of over-supply. Mr Alistair Bond at Harnell Taylor Cook is optimistic about the next couple of years providing take-up continues at more than 500,000 sq ft a year. But the enormous potential of central and suburban development could see excess returning in the 1990s.

The city's strength as a prime relocation centre has come to its rescue time and again. Agents Chesterton point to the ease of motorway access and quality workforce that attract the likes of Lloyds Bank, forsaking London's attractions to create a massive centre at Cannons Marsh. But the city outskirts may benefit most in future, reviving the fortunes of Arlington's Aztec West, feeding the proposed Emmerson Green complex and helping the new development corporation find its feet.

SOUTH COAST/M3 CORRIDOR

Return to waterfront

FOR years Southampton turned its back on the waterfront that had been the origin of its prosperity, concentrating on establishing an office ghetto north of the town centre instead. But the fashion for dockland redevelopment has reversed this stance.

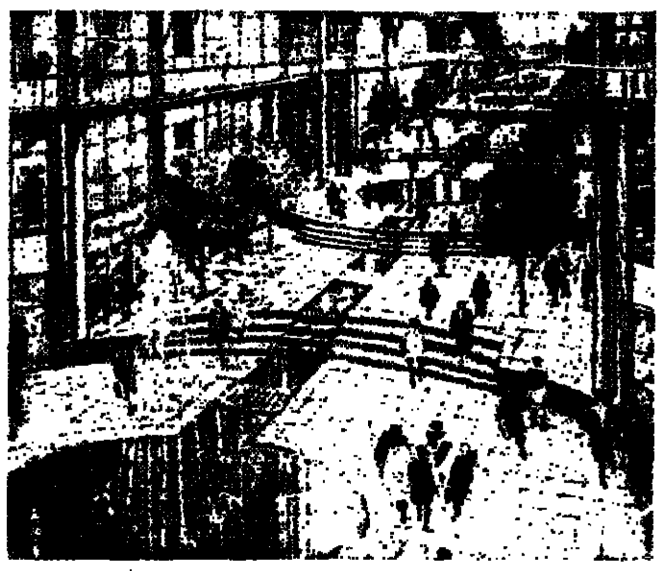
Ocean Village, Queen's Quay and Town Quay are sprouting office buildings, just as supply begins to tighten in the more traditional locations. These waterside schemes are mainly proving an outlet for local expansion, which has been powerful enough to push asking rents to £15.50 a sq ft in Ocean Village, according to local specialists Vail Williams.

But the vitality of this newly-emerging financial centre seems to stretch well beyond the dock areas to impress large companies which want something extra for their headquarters buildings. Skandia Life is creating itself 105,000 sq ft on the Marlands site, and other groups are sniffing around campus schemes sprouting along the M27 link with Portsmouth, where IBM was one of the first converts to the area's attractions.

In the opposite direction, Property Management International is organising one of those headquarter moves that become a landmark in regional development. Abbey Life is building a £21m headquarters in Bournemouth to designs by architect GMW which would put some central London buildings in the shade.

The bandwagon effect should see more converts and extra pressure on rents, particularly once the M3 connection is complete and the 1992 launch into Europe adds to the area's importance as a continental gateway. Basingstoke has already felt the M3 effect by attracting a clutch of major office users such as the recent move by Mercantile Credit to Churchill Plaza. But Vail Williams challenges the planners' allocation for half a dozen further schemes totalling more than 500,000 sq ft. It points out that the real demand is for much smaller schemes to satisfy demand from local companies. Lack of suitable space could mean this is where rental growth will be strongest.

Abbey Life's new Bournemouth headquarters: design puts some London buildings in the shade



Birmingham's Snow Hill site: they don't come much bigger

Edinburgh: attracting investment from the south and responding to local regeneration

THAMES VALLEY/HEATHROW

Space in Reading

READING'S title as boom town of the south is coming in for heavy scrutiny. On the face of it, a 37 per cent increase in rents since 1987 seems a pretty good claim to Klondike status. But this is well below rates of growth at either end of the M4 corridor it is meant to dominate, according to Simon Fryer of agents Campbell Gordon.

Bristol's values have soared 80 per cent in that time, and if Reading's rents had kept pace with growth in London's West End, they would be hovering around £40 a sq ft by now rather than half that amount.

Maidenhead and Slough have done much better, widening the gap to achieve values of around £25 and £26, but even they are lagging behind the growth leaders.

This divergence illustrates *two often overlooked facts.* The first is that neither the Thames Valley nor the M4 corridor are uniform markets. Widely differing patterns of supply and demand have different impacts on different parts. The second point is that relocating businesses are not the force they are cracked up to be.

Large amounts of space have come on stream in Reading over the last couple of years, including the Prudential's 200,000 sq ft Apex Plaza development and the three phases of MEPC's Abbey Gardens. Relocators have been put off by congestion and high house prices this close to London and tended to ignore such landmarks, looking further west for a new home. Expanding professional groups such as Deloittes and Peat Marwick have done their bit to absorb the extra space but they cannot gobble up such large lumps quickly.

Fryer figures that the recent scaling down of growth targets will restore the historical pattern as shortages arise in this central M4 area, sending Reading and Bracknell rents back into orbit. But as agents Vail Williams point out, supply is not going to dry up. Massive out-of-town schemes are now under way, such as Speyhawk's *Thames* Valley Park where Digital has already taken 33 acres for an office headquarters and British Telecom is set to take 250,000 sq ft.

NORTH-WEST

The boom goes on

THE Manchester development boom shows no sign of easing. If anything it is accelerating, with new schemes coming out of the woodwork by the week.

Town Centre Securities is one of the latest to announce its confidence in the region's business capital, preparing plans for up to 500,000 sq ft on 10 acres of development corporation land around Rochdale canal basin.

This is not even a traditional office area, and has been subject to several development attempts over the years. But confidence in the local economy and the added sweetener of city grants should take things further this time.

The lack of prime sites for developers to get their teeth into has pushed them into the fringes, according to Graham Martindale of St Modwen Properties.

The Salford and Trafford enterprise zones have also proved popular with occupiers, and rents have reached £11.50 a sq ft compared with around £13 in the town centre.

Overspill into south Manchester, particularly of high-tech organisations has naturally helped St Modwen's £30m business park.

Some tenants are willing to pay even more than central rents for the benefits of motorway access and parkland settings, it says.

But central areas will bounce back this year, if only because so little new space is ready for occupation. Parc Securities, for instance, claims that Westminster House, its 160,000 sq ft transformation of the former county hall, is the only high-specification space available in this category for the next 12 months. The extra pressure has brought into contention some sites which would have been rejected by developers and occupiers even three months ago, says Jeremy Hobson of The Elliott Partnership.

Anything within walking distance of the financial area which can offer good parking is now in high demand. For instance, a site with potential for 50,000 sq ft in Aytoun Street was snapped up for *more than £1m* by City & Northern after only two weeks on the market. Manchester appears to lag in the rental stakes behind lesser provincial centres but Hobson says prelets *will have to be at £15-plus* per sq ft and may drift towards £20 in the next 12 months, putting the centre up among the leaders again.

SCOTLAND

Magnet for investors

THE lop-sided development of the UK economy which once counted against anything too far from London has swung back in favour of Edinburgh and Glasgow, which are both attracting investment from the overheated south as well as responding to local regeneration.

Edinburgh, which suffered badly from overdevelopment in the 1970s, has now boiled away its excess office space, according to John McCulloch of Knight Frank & Rutley. "The speed with which the space was taken up, largely by financial services, caught the market by surprise and boosted rents from £6 to almost £20 a sq ft in three years," he says.

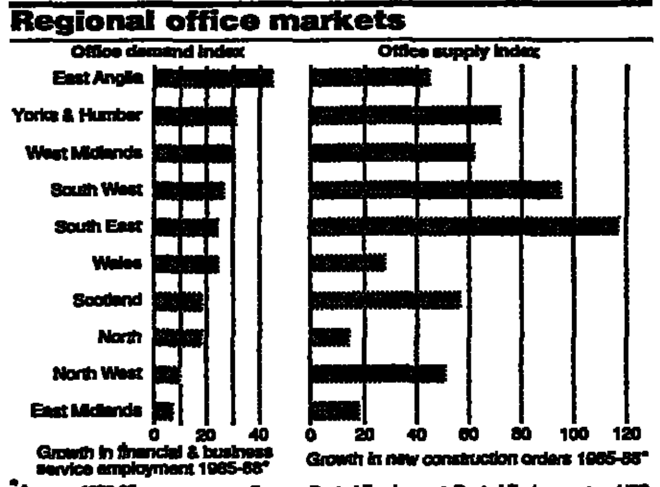
Shadows of a renewed glut are now creeping over the horizon, as Weatheralls predicts potential starts of more than 2m sq ft by the 1990s. This includes the much-delayed Lothian Road conference centre, which has attracted developers like Greycoat and Sheraton and would be the biggest property construction since the castle if it finally gets off the ground. At 750,000 sq ft, it matches the total estimated demand in the city last year.

But few new offices will be available in the next year or two, so most observers are expecting rents to break £20 a sq ft providing the economy does not take a sudden dive. As the UK's second financial centre, Edinburgh could then tap the potential expansion expected after the 1992 European market unification.

Glasgow lies a little behind its sister city with top rents still around £14 a sq ft. But what was formerly a drab backwater for office development has been transformed by a £2bn regeneration programme into one of the UK's foremost provincial centres, and optimists such as Mr James Barr in the Herring Son & Daw group predict £20 rents within the next 18 months.

Business is growing organically, swelling demand for space, but Glasgow is also picking up its share of relocators, such as Britoil, which see the revived town as a good base for northern operations. Unlike Edinburgh, short-term supply appears generous, with about 2.5m sq ft under construction.

Regional office markets



*Average 1978-85 Sources: Dept of Employment, Dept of Environment and IPD

WEST MIDLANDS

Ambitious car park

PROPOSALS for giant office schemes are becoming a feature of provincial centres as developers and planners try to bridge the gap between demand and supply. And they do not come much bigger than the £100m proposals by Speyhawk and British Rail for a car park next to Birmingham's Snow Hill station.

At 900,000 sq ft, this will represent 6 per cent of the stock in a city already well-endowed with space during previous property booms - a massive bite for a single development.

But these ambitious plans represent a gap in quality as much as quantity. Spiralling costs have been spinning businesses out of the south-east and Birmingham has been their traditional first stop over the years. They demand accommodation standards as good as those now considered standard in central London but sadly lacking even in many recent buildings. Meanwhile, local companies are expanding and see no reason why they should not be treated just as well as their southern cousins.

This would normally mean that large lumps of new development should not appear as frightening as they first seem; they will often replace rather than add to existing stock. But there seems little potential for oversupply in Birmingham anyway considering that demand soared to almost 3m sq ft in the first quarter of this year, according to Tony Jemmet of Debenham Tewson Chesshire.

Rents have automatically followed, nosing above £15 a sq ft for the best locations to bring the city in line with other top provincial centres. Not everyone is able to afford this, however, so the corollary to massive schemes on prime sites has been a surge of interest in small courtyard developments. These had already been developing in popularity, partly because of the freehold advantages of appreciating asset values and partly because Birmingham is as beset with commuting problems as any large city.

This means that development has spilled out of the central area into such schemes as The Quadrangle in Solihull, Wrens Court in Sutton Coldfield and Littleton Court in Halesowen.

The Wharf development is another example, which also illustrates the spin-off in development as the city invests in more hotel and leisure development tied up with what will be Britain's first purpose-built convention centre.

Paul Cheeseright looks at the rapid spread of business parks

Cutting edge of decentralised market

THE spread of business parks has been the most striking addition to the stock of office facilities over the past five years. There has been a ready demand which developers have rushed to satisfy to the extent that the initial phase of expansion may well be coming to an end.

But the great problem with business parks is knowing precisely what they are. There is a marketing tendency to call a couple of glossy new buildings with a few specially planted trees a business park, but the real park is something more elaborate.

Buildings tend to be two or three storeys high. They are in a landscaped area on the edge of, or outside, towns.

They have plenty of car parking – perhaps one space for every 250 square feet of office space. They have easy access, tending to be near a motorway, and the closer to an airport the better.

Established in the US long before they came to the UK, business parks used to be associated with so-called high-tech buildings used by, for example, electronics companies mixing light industrial or research and development space with office accommodation.

But the 1987 decision by the Government to change the Use Classes Order and create a B1 category which did not differentiate between industrial and office use in a building gave a fillip to a tendency for more and more office space in a business park. It enabled business park operators to look more widely for their customers.

Now the building specifications in an out-of-town park will tend to be as high as for in-town office buildings and the business parks represent the cutting edge of the decentralised office market. In some cases their rents may be at a premium to the traditional town offices.

Business parks are marketed on the basis that they offer agreeable surroundings and amenities, free of urban hassle, and that they are communities in their own right. And, indeed, there has been a tendency for banks and others in the financial services sector to move their backroom offices out of town into the parks. But the staple demand has tended to come from companies already in the area of the park and frequently expanding.

The relationship between business parks and in-town offices, however, remains difficult to gauge. Certainly a shortage of town centre supply tends to push office users outwards, but it is not always clear that the general amenities – shopping and the rest – are available in or close to business parks.

Healey & Baker, chartered surveyors, note that business park development has really only just begun. Over the next 10 to 15 years, it predicts, they "will develop communal shopping, eating, leisure and recreational facilities with on-site medical facilities and crèches for employees' infants."

And, suggests Fletcher King, chartered surveyors, "as occupiers adopt more flexible attitudes to locations, business parks will compete in a national market with increasing emphasis on the quality of on-site retail and leisure facilities."

Research into future space needs of office occupiers in the south-east by Jones Lang Wootton, chartered surveyors, has indicated that attitudes to location are not yet very flexible and that companies like to expand in the areas of their existing occupation.

The main thrust behind the expansion of business parks, which started on the west side of London, from Heathrow Airport and spread outwards down the M3 and M4 motorways, has been from companies already in the area and needing access to Heathrow. For the most part these were high technology companies, often international.

But this expansion has spread far. Business parks stretch west from Stockley Park, still considered by many as the model, through the plethora of development around Reading (Slough Estates, Speyhawk, and Sheraton), down the motorway past Arlington Securities' Aztec West outside Bristol and into Wales. To the south-west the parks are scattered down to the Solent.

The very success of the parks in this area has created its own problems, as employers find it hard to attract new staff and difficult to obtain new accommodation. The once open areas are becoming crowded. This factor, allied to the improvement of communications around London, has pushed the business park phenomenon across the northern side of London – developments by, for example, Trafalgar House and Mr Nicky Phillips – and now down into the south-east.

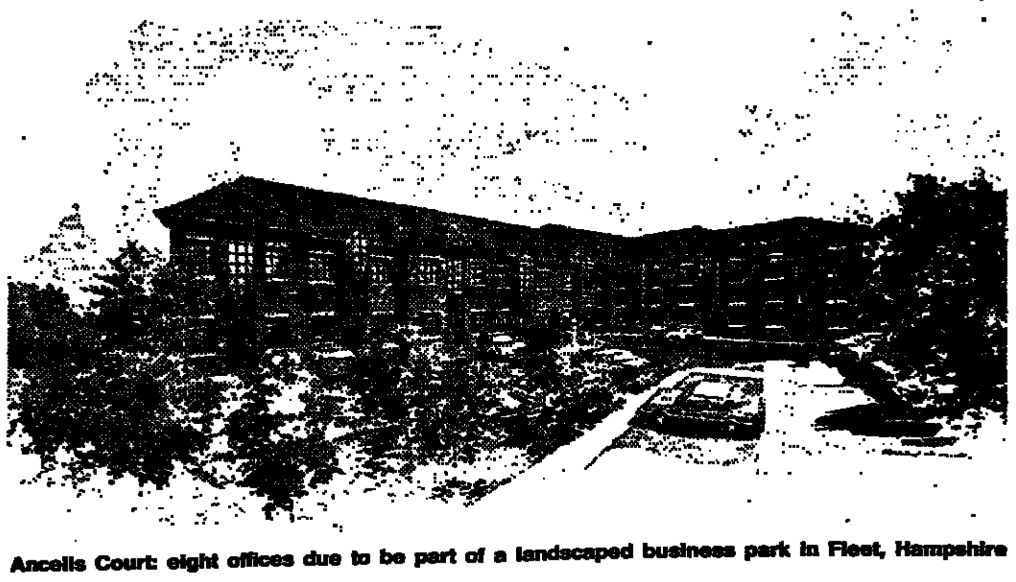
Indeed, two of the largest planned business parks are in Kent – at Ashford where NEDA and Imry Merchant Developers are seeking planning permission and at West Malling where the Kent County Council has selected the US group Rouse and Associates to develop a new park.

With the boost to the property industry that has come from economic growth in the regions, the business parks are now spreading northwards – Arlington near Birmingham, Warringtons near Chester, and so on.

Generally they are finding a ready response from tenants. For how long is less clear.

It is a moot point whether the high level of development which has been taking place, allied to the spread of in-town office projects throughout Britain, has now reached the point where a greater degree of choice for occupiers is acting as a stabilising factor on rents. Given the signs of slowing in the economy it may be that the business park market is in for a period of consolidation.

But the high level of development has had one distorting effect on the property market generally. The greater freedom for developers that has emerged from the B1 provisions has led to a bidding up of land prices in the south-east to levels which can be justified only if the sites are used for offices.



Ancells Court: eight offices due to be part of a landscaped business park in Fleet, Hampshire

LAND SECURITIES

IN ITS results for the year to March 31, 1989, Britain's largest quoted property company disclosed a £5.2bn portfolio largely (78.13 per cent) centred in London and the Home Counties. The weighting towards London and the south is even more marked in the office property sector of its portfolio; of the total group portfolio, 59.13 per cent is in offices, and 58.53 per cent in offices in London and the Home Counties. Its involvement in office property in the north-west of England is nil, and it is not much greater in the other provincial areas of the UK.

Inside the perimeters of London, Land's presence is indeed substantial. It has a development programme of 3.59m sq ft of which 1.2m sq ft is in London offices. Much of this is pre-let and will produce rents of £30m annually.

Among the more visible of 700 properties are some of the major buildings and refurbishments of the 1960s – including many office premises in Oxford Street, the famed Hilton on the Park Hotel, and Roman House on London Wall.

Land Securities' office development programme is focused entirely on London and its surrounding environs. The property research analysts at Charterhouse Tilney point to the differential opening up between Land's City and its West End business property portfolios. The two usually ran neck and neck in terms of investment and growth. This year, however, net valuation uplift on West End and Victoria properties increased by 32 per cent, compared with a rise of only 12 per cent on the group's City properties.

The sheer firepower of the Land Securities portfolio may have been summed up best by Mr Peter Hunt, the chairman, with the words: "Our profit and loss account is basically underwritten by the Government and a host of Blue Chip companies; without us, they could not operate."

Just as well, then, that Mr Hunt and Land Securities are highly optimistic for the future of the London property area which is their stalking ground. They are unperturbed by the slowdown in Docklands, and see a great future for British property men with the single European market in 1992.

by Terry Byland

MEPC

SECOND in size to Land Securities, MEPC commands a portfolio not as heavily weighted on London and the south and stretching into Australia, Europe and the US. Its most recent financial report showed the expected and substantial rise in West End asset values, and less dramatic increases in City office property as the Square Mile gritted its teeth and faced up to job redundancies. Those of an historical turn of mind may have smiled to read that Centre Point, acquired when the group bought Oldham Estates, the former Harry Hyams company, was fully let.

Its office portfolio in London takes in many of the long-established centres of City activity – buildings in Ludgate House, Blackfriars House, Old Jewry, Drapers gardens and Throgmorton Avenue.

MEPC follows a policy of managing its own properties, providing services ranging from the conventional surveying and maintenance to the security functions that have grown so rapidly in the new London of high-tech offices.

MEPC lifted its trading profits sharply in the first half of the current year but its staple support remains the income from the worldwide property portfolio. A continuing flow of rent reviews has, to a considerable extent, insulated the group against the vagaries now being experienced in some areas of office property.

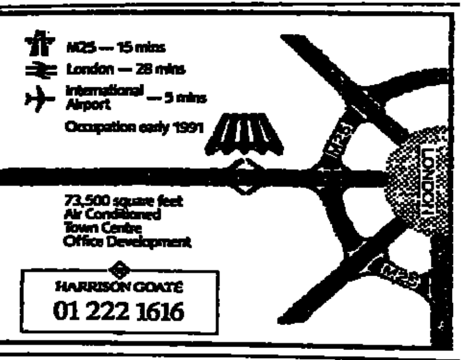
Recent acquisitions to catch the eye of property analysts in London have included MEPC's purchase of a 48,000 sq ft site in Mainzer Landstrasse, set in the international banking district of Frankfurt. It is also engaged in construction work in Munich, where it has a 160,000 sq ft office development project, and in Hamburg, with a 65,000 sq ft office development.

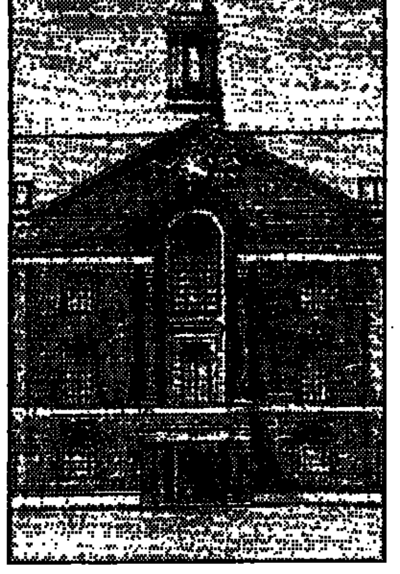
LAING PROPERTIES

LAING sails on a different tack from many UK groups by having nearly half its portfolio outside the country – in North America. The commitment to the US remains intact despite the disappointing capital growth recorded there in recent years. Some US areas have suffered from serious over building of office space, and shareholders were probably pleased to hear that Laing is substantially reducing its commitment to office development in Atlanta.

Last year was significant for Laing in terms of re-positioning its North American portfolio. This involved significant dispersals of office developments in the southern US, and substantial purchases in Canada, notably of the Campeau portfolio for £77m.

In the UK the development portfolio has an end value of around £100m. Involvement in the central London office property sector is about 27,000 sq ft. Laing's other office properties are scattered.





Richard Catt looks at a new breed of specialist advisers

Time and quality controllers

LOCATION is said to be the key to successful office development. But to compete in prime commercial property markets these days there are two other considerations: timing and quality. For users, whether tenants or owner occupiers, running costs, which include maintenance, cleaning, fuel and insurance premiums, are increasingly important. Any significant expenditure above the norm inevitably nibbles away at rental values.

Investors and developers want fast delivery of new office buildings, although they do not expect to pay over the odds. They want the best from the construction industry at the best price.

These factors have persuaded many developers to turn to a new breed of specialists who offer advice prior to acquisition, and "value engineering" and project management during the building process. These are specific independent and separate disciplines from architecture, engineering and construction.

Mr Jo Stocks, of chartered surveyors Watts and Partners, specialises in advising fund managers who buy standing buildings as investments, share equity with developers or buy new schemes from them. He likes to be called in at the earliest stage of acquisition, so that his clients can avoid pitfalls that can turn a scheme that looks good on paper into a letting agent's nightmare.

Before a fund takes over an existing building Mr Stocks identifies any inherent defects, short life or dangerous materials – concrete with quick setting additives that corrode essential reinforcement, cladding held together with hitherto untried fixings and adhesives, asbestos and defective air conditioning systems.

At the same time, he carefully searches leases to identify legal responsibilities for repairs. Conscientious tenants no longer take on buildings where their commitment to repair – which can extend to making good inherent defects – is too onerous. Fire and security precautions, always being updated as regulations become more stringent and the crime rate soars, will affect insurance premiums.

Project management: underpinning Montreal Cathedral to allow adjoining offices to be built

The Fire Officers' Committee Rules – different from statutory requirements – need to be complied with if insurance premiums are to be reasonable. Mr Stocks explains that security and fire precautions are best designed in since there is only so much that hardware and electronic surveillance and alarm systems can do.

Equally, however well walls, windows and roofs are insulated against heat and cold, the ratio of external wall and window area to floor area and orientation of buildings can have a far greater affect on fuel savings than double glazing and venetian blinds.

Flexibility is essential to meet the aspirations of growing businesses and the drive towards more sophisticated information retrieval and delivery systems. This means fully adaptable air conditioning to allow for different configurations of partitions on each floor, particularly if buildings are to be shared; raised floors and extra and standby power capacity to anticipate technological changes.

Mr Michael Morris, of international quantity surveyors Hanscomb which has offices in North America, Africa, Germany, Turkey and London, offers developers value engineering which "examines the functions of a project and their contribution to worth and whether or not they can be provided in other ways at less cost". The idea is to minimise costs, including running costs, without compromising quality.

Savings of up to 15 per cent can be made using this technique, Mr Morris says. Hanscomb has developed its own software programmes as a result of a commission to advise the US military which was charged by the government to shave 5 per cent off military expenditure.

He is now chairman of a board which investigates ways of appraising estimates for accuracy for federally funded projects.

Once developers give the green light, the building still has to be constructed. Budgets and programmes have to be set, consultants and contractors selected and the project driven home. This is an intense activity best handled by specialists, according to Mr Derek Hammond, of Project Management International.

A building site is like a temporary factory set up on somebody else's land, beside neighbours who expect quiet enjoyment of their own premises. On a city site, the web of legal complexities – down to keeping quiet during the day for office workers and at night for people who live and sleep nearby – and the practicalities of delivering men, materials and equipment at the right time and disposing of rubbish can cause enormous headaches.

Mr Hammond knows this only too well: he worked for Cubitts as site manager 30 years ago during the construction of the West London Air Terminal. His efforts were frustrated by slow delivery of key architects' and engineers' drawings. Labour disputes and a major fire when the building was nearly complete added to Mr Hammond's problems.

With this behind him Mr Hammond teamed up with Mr Trevor Osborne (who went on to found Speyhawk the property developer) to advise the emerging private airlines who wanted premises from hangars to offices and check-in facilities immediately. While Mr Osborne concentrated on obtaining leases and sites, Mr Hammond delivered the buildings at top speed.

The techniques he developed are now the basis of his international business. Project Management International selects a senior partner to lead a which establishes the brief, thrashes out initial feasibility studies, appoints consultants, advises on building contracts, selects the builders, supervises the work and sees the tenants into their new accommodation.

Shortlisting suitable builders is an exacting task. Mr Hammond ensures that the contractors have the necessary resources available in the location where they are needed. The contractor must be carefully examined on his home ground and have the right attitude towards the intended project. Then, the price must be right, which will not necessarily be the lowest available.

Mr Michael Sammels, project manager at chartered surveyors Hillier Parker, selects contractors after analysing the results of questionnaires (which run to 12 pages) received from contractors on his own computer. He never wastes builders' time, and is as proud of his company's reputation among contractors as he is of the regard in which it is held by clients.

Mr Jo Stocks says that the prestige of the contractor may have little to do with site performance. Efficiency depends on the character and commitment of the people involved at the time. Few contractors will refuse to tender for a major contract and those firms who cannot demonstrate that they really want and can do the job are weeded out early on. This is largely a matter of instinct, however carefully he interviews key staff before assembling the tender list.

Mr Michael Morris, of Hanscomb, says the builders often field their first team at interview, only to bring on inferior substitutes later.

Good project managers earn their fees several times over by controlling the pace and direction of the development and getting value for money.

Their appointment is often resented by other members of the development team, although most welcome the freedom to concentrate on what they can do best.

David Lawson investigates the attractions of Docklands

A window of opportunity

SOMEONE on the top floor of Merrill Lynch's Ropemaker Court headquarters will know all the details behind the US bank's deal to move lock, stock and barrel from the City of London tower into Canary Wharf in 1992. But it is unlikely they will spill the beans.

By rights this should have been the crucial transaction which wiped sneers off the faces of critics, proving that the £3.5bn docklands giant was not a wild gamble but a shrewd piece of speculative development. Everyone was waiting for a blue-chip business to move, sanctifying the giant building site for others to follow. The "thundering herd" seemed to fit the bill.

But doubts still nag about the real economics, kept a close secret by Merrill and developer Olympia & York. Cynics are left to suggest O&Y may have repeated its deal over Battery Park, a similar off-centre office complex in New York. The developer bought Merrill's headquarters on Liberty Plaza and the bank took 4m sq ft in the new complex instead. But Merrill did not move all its staff and eventually put 1m sq ft back in the hands of O&Y.

If the London deal follows similar lines, Canary Wharf remains untested by a real letting and a huge shadow over the potential success of docklands. Another 1m sq ft is reserved for Credit Suisse and Morgan Stanley, but they were development sponsors, so again they might not be set to pay a market rent. This accounts for continuing scepticism about the scheme, even though it is obvious that O&Y will see it through. The company, as the world's biggest private developer, has no shareholders to worry about and massive reserves. It also takes a long view – perhaps 10 years longer than most UK analysts – about judging success and failure.

That would be the best way for everyone to look at this massive complex, where the equivalent of a complete provincial town centre is sprouting amid defunct wharves and cranes. But short-term judgements are irresistible, particularly in the context of the balance of supply and demand of office space for central London as a whole. It is ironic that Canary Wharf is dismissed by many observers as unattractive to quality tenants yet often lumped in with City space by the same people to indicate a possible massive overcupply in the 1990s.

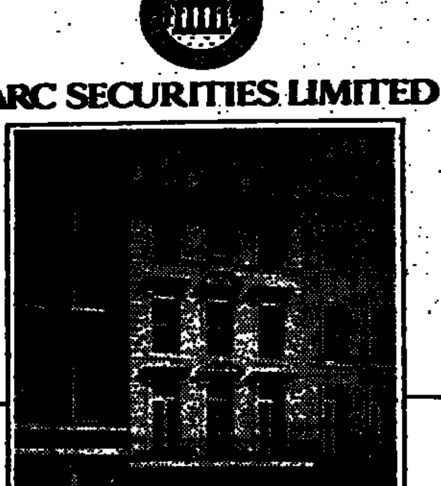
Even taken alone, however, the amount of space in the Isle of Dogs appears massive. Barclays de Zoete Wedd's property team figures on 15m sq ft coming out of the ground by the end of 1992 – three-quarters of it speculative – and a further 5m sq ft in the rest of docklands by the following year. This does not impress BZW, which says the area is still unattractive to central London tenants. Time and financial inducements are essential before a critical mass of 10m sq ft is let; only then will Docklands attract tenants for reasons other than tax incentives and cheep rents, say analysts.

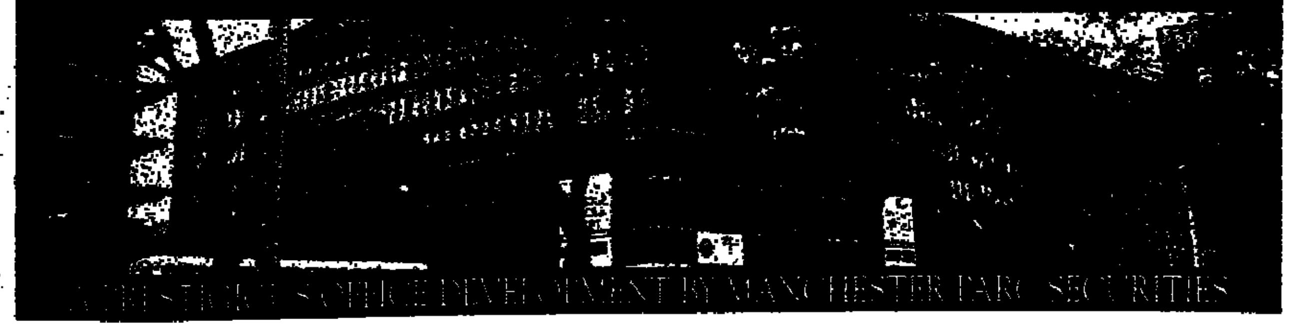
Even Jones Lang Wootton, which shares the task of marketing Canary Wharf with Debenham Tewson & Chinnocks, implies a fairly bleak view of the area this year, with 1.5m sq ft more space due on stream to boost vacancy rates already above 20 per cent. Rents will therefore remain static at around £20 a sq ft at least until the middle of 1990. But the agents have adopted the longer-view of their employers, pointing out that dramatic improvements will take place in the second half of next year as transport improvement take effect and more shopping and leisure facilities come on stream.

Fears about getting staff in and out of Docklands have been a major barrier to tenant interest. O&Y has been pressing the Government to allow a private bill to open a new Tube line from Waterloo and offered to meet a third of the estimated cost of £450m – it is already meeting part of the costs of the light rail extension into the City. Now there are suggestions that the developer wants an even more ambitious extension of the Jubilee Line from Charing Cross.

Most of these ideas will not have an effect until after 1992, however – if they take place at all. By then the first stages of Canary Wharf will be finished and waiting for more tenants, as will several other office developments. It may be more than coincidence that the unified European market will also take off that year. Developers are praying fervently that overseas financial groups with fewer prejudices will have chosen Docklands

Things have gone surprisingly well for Docklands up to now, with demand almost matching supply. Deals are still going through at respectable levels, such as the 39,000 sq ft let by Knight Frank & Rutley for London & Metropolitan at £750,000 a year to the D C Gardner group in Harbour Exchange. Enterprise zone tax advantages have also attracted investors to buy parts of Thames Quay and Harbour Exchange. But the next few years will see a sea-change as supply takes a quantum leap. KFR sees it as a "window of opportunity" for Docklands to attract not just overseas tenants but those spilling out of central London. The critical factor will be convincing outsiders that the place is worth going to – and that they can get in and out. If developers can do this – and they are already considering a £6m marketing campaign to get the message across – the high stakes will produce even higher rewards.





ARCHITECTURE

A battle of tastes

THE war between conservationists and developers over the shape of Britain's office architecture, fired in early summer by controversy over the Rose Theatre site on London's South Bank, flared up again this month as Peter Palumbo won his fight to develop Number One Poultry in the heart of the City.

Mr Nicholas Ridley, the Environment Secretary, gave his permission for the development, which has been waiting for the official imprimatur for 31 years. And Mr Palumbo, the developer who has been chairman of the Arts Council since April, gained the right to demolish 13 Victorian buildings, eight of them listed.

These are to be replaced by a much-criticised design by the architect James Stirling. The Prince of Wales has described the scheme as looking like "a 1930s wireless". The planning decision goes against the wishes of the City of London planning committee; it is contrary to conservation policies; and the Financial Times architectural correspondent described it as "incredible".

Entertaining as the language might be, the Poultry affair is just one of many arguments about the external fabric of Britain's buildings, and the feeling that the country's architectural heritage is being sacrificed to the god of profit.

There is another side to the debate: the inside. Back in April, architect Frank Duffy and economist Alex Henney said in a new book* that discussion had concentrated too much on height, bulk, facades and detailing; they turned the spotlight on to interiors, and implied that the fuss about facades has been overdone.

Mr Duffy's firm, DEGW, has majored on the impact of information technology (IT) upon the office environment; its research work has influenced mega-developments such as Rosehaugh Stanhope's Broadgate in the City of London, and Stockley Park at the London end of the M4 motorway. The book declared that the use of IT has exploded over the past decade: "Investment in IT by investment banks in 1987 was about £2bn, to which another £1bn can be added as an estimate for the rest of the City.

"The more information is handled, stored and retrieved electronically, the more vital it is that buildings have the capacity to accommodate IT," it continued. "Buildings have become, in a sense, an extension of the computer..."

Now computers are not noted for looking good; and why should they, when the innards cost so much more than the casings? Duffy and Henney say building econom ics are going the same way.

They say that the cost of accommodating informatio. technology and providing flex bility is, in large measure, responsible for a shift in the weight of building expenditure from long-term architecture to short-term interior design.

The shell of a building, accounting for a third of the total cost of a development last year, could represent no more than one-eighth of cumulative expenditure on shell, services and "scenery" in 50 years' time: services, comprising power supply, lifts and air conditioning, having a life of 10 to 15 years; and scenery – the authors' word for partitioning, finishes and furniture – lasting between five years and seven.

"In this economic sense, not only is old-fashioned architecture becoming less important but, increasingly, the rationale for the longevity of the building shell is likely to be questioned," they concluded.

This is not always a bad thing. The GMW Partnership, architects for the redevelopment of the tall, "modern" Daily Mirror building at Holborn Circus, London EC1, say that their new scheme – involving three distinct buildings, each on a scale traditionally associated with the area – will open up views of St Paul's Cathedral which have been obscured for the past 30 years.

However, lower buildings elsewhere, especially in the City of London proper, have come out squat, dense and overbearing. Given the pressure exerted on City planners by the threat of Canary Wharf to the east, King's Cross to the north and Paddington to the west, it is no use looking for miracles of space and light in the centre, where enclosed space is at such a premium.

"The City of London has been rebuilt every 100 years or so since the Fire of London," says Julian Ryder-Richardson, a partner of GMW, "and each time a little residual is left from the periods before. But it is very difficult to mix too much of a museum aspect into the requirements of modern business."

He maintains that economics are the driving force shaping the current surge of office development. Precise St Paul's height levels are affecting building heights elsewhere in the country, but low-rise buildings also provide a much higher ratio of net to gross office letting space.

There is a price to pay, and that is paid by the public at large. Reduced heights, according to Mr Ryder-Richardson, mean that developers have to build to the very perimeter of a site. "If you reduce that by 10 per cent you would have a very much looser building," he says, "but if you produce 10 per cent less, that becomes very expensive space unless the value of the site has fallen to accommodate it.

"If the public recognises that what they want is less," he says, "it then takes some time for that recognition to filter through to developers, investors et al." However, he says, if enough people decide to think that way, then the call for space and light will be strong enough to transcend the profit motive.

Mr Ryder-Richardson questions the size of floorplate, 30,000 sq ft and more which, according to conventional wisdom, is what the deregulated UK securities industry needs for the last decade of the 20th Century, and the beginning of the 21st.

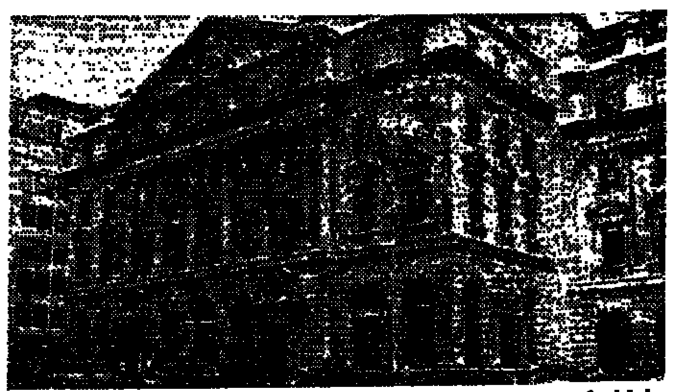
"We looked at a building proposition for a securities house two or three years ago, in respect of requirements for 1993, and then 2010. We saw anomalies in the proposition," he says, "and we were asked to test its assumptions.

"It turned out that the prima donnas in a securities dealing team had been asked how much space they needed, worked out the figure – and added a bit for luck. The next level of management added a bit more, and so on up the chain of command. By the time it got to us, it was very nearly double the real requirement."

The City loves its traditions so it duly shot the messenger. "We got sacked," says Mr Ryder-Richardson. It may be some consolation to him and GMW that the market did not manage to supply that company's space requirement before it ebbed with the crash of '87.

William Cochrane

The Changing City, price £75, published by Bulstrode Press. (Tel:01 935 6067).



Commercial Union Properties, St James's: a £4.2m refurbishment of a Grade II listed building in Waterloo Place

David Lawson records one response to brokers' predictions

Doom and gloom dismissed

IF the old adage is true that money talks louder than words, the property industry's entrepreneurs should have no trouble drowning out the drone of gloom and doom emanating from a stream of City brokers' reports. Some privateers have been spending like there is no tomorrow, convinced that money is there to be made on the right buildings in the right place.

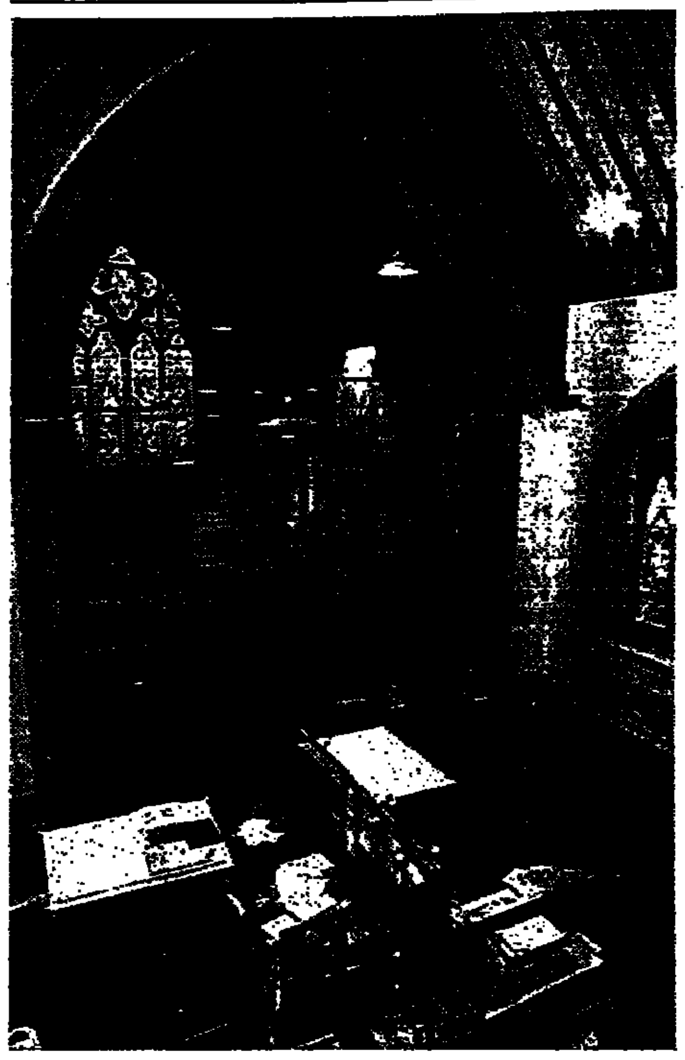
Mr Berish Berger, who took Jack Rose's Land & Property Trust into private ownership, has no truck with warnings that investment values are set to fall. He is vigorously uprating the secondary nature of the company's asset stock, shelling out close to £250m in the last year on a clutch of major office buildings like the Island site in the City's Finsbury Pavement and Hoskyns House in Shaftesbury Avenue.

In complete opposition to warnings about an impending tide of surplus London space, he feels the investment market will remain strong for the forseeable future because there are not enough top-class buildings to meet the needs of expanding professional tenants and overseas tenants and investors.

One of Rose's main legacies was more than 50 buildings in the Smithfield area. Once an isolated backwater, this is now part of the buoyant "midtown" zone including Holborn and Fleet Street, where rents have boomed to between £40 and £50 a sq ft as lawyers and accountants eat up space and tenants spin out of the high-priced acres of City and West End.

LPT is capitalising on this with a 215,000 sq ft development on Cowcross Street, near Smithfield market, and another 100,000 sq ft in City Road, also part of this expanding fringe zone. Mr Berger sees the whole northern strip raising its sights as communication improvements like the Thameslink and cross-London rail line take effect. Once the giant King's Cross redevelopment gets under way, this hazy no-man's land between the twin peaks of City and West End will become more defined. The rental trough is likely to gradually fill, with the southern end close to the river quickly matching more central locations and demand spreading north to absorb fringes like Smithfield and Clerkenwell.

Some privateers have been spending like there is no tomorrow



Marketing Spectrum, a Marlow-based advertising, public relations and exhibitions group, moved into a local church when expansion plans forced the company to look for larger premises. The company is spending £250,000 transforming Old Trinity Church into prestige offices.

Villa-style headquarters

Wimpey Construction is creating a villa-style headquarters for security printers De La Rue at Basingstoke, Hampshire, where the company already has several buildings. The £11.7m centre, which will house 350 staff, is aptly named Casa De La Rue.

Terry Byland examines the demand for 'business centres'

Serviced suites are now in fashion

THE growth in the market and supply of serviced offices, often grouped together as "business centres", in which the client leases furnished business premises and also a range of ancillary services, has enjoyed unprecedented growth over the past two years. Central London, spearheaded by the West End, has proved the most active area for this form of property development, but the clients have increasingly originated from the UK provinces, or from further afield.

Since 1986, 26 new serviced office complexes have opened for business. The provision of office services has become more sophisticated than in the 1960s, when the business centre market first emerged in the UK. Telephone and telex services are now generally part of the package and clients can

The provision of office services has become more sophisticated than in the 1960s, when the business centre market first emerged in the UK

expect to hire executive secretaries, boardrooms, and catering services, often by the hour. This has encouraged the use of serviced office suites as semi-permanent London headquarters by overseas or UK provincial firms.

The rapid move into high technology office and communications systems, far from restricting the growth of serviced suites, has given a further impetus to their use. Out-of-town clients find it more suitable to operate from offices already supplied with the the full range of electronic business equipment than to rent office space and then set to work to attach rented computers to plugs which may or not work and may or not prove friendly to the rented machinery.

The objectives behind the provision of business centres have, in fact, changed significantly, according to Winter & Co, specialists in Central London office property. Where clients formerly sought little more than flexible, short-term accommodation with minimum low cost services, their needs are now more diverse.

More and more the serviced suite must act as the stage on which the company presents itself to its customers in an essentially foreign environment, often a foreign country. In addition to the more obvious office requirements, the premises need to provide the background of "a business club". International clients may indeed want their serviced suite as a venue for talking to clients, showing business videos, interviewing prospective staff, or briefing sales staff, rather than for more routine operations.

Some specialists in the business centre field are already considering making reciprocal arrangements with centres in other European countries, with the aim of offering clients a rented presence in all the world's major financial centres. The long shot in this dream is the development of some form of time share network, although the name itself is not too popular because of

The rapid growth into high-technology office and communications systems has given a further impetus to the growth of serviced suites

its unfortunate associations with the tourist brochures.

Setting aside such futuristic ambitions, the essential expansion of the services office business is now well established. The market in the West End of London and the City has expanded by more than 300,000 sq ft over the past two years, a rate of growth far in excess of that of the previous 20 years which roughly encompass the life span of the UK office suites business.

The West End leads the market in terms of client popularity. After remaining constant between 1960 and the late 1970s, the level of new starts in West End business centres has forged ahead during the 1980s. The peak year to date was 1986 when eight new centres started life, representing an addition of around 80,000 sq ft to total floor space.

Last year saw growth continuing in the West End, where additions to floor space totalled just over 70,000 sq ft, against 60,000 sq ft in the previous year.

The West End experience contrasts with that of the City of London, which has led the league of rental growth although lagging behind in terms of new starts and floor space additions.

Big Bang was reflected in new starts of business centres in the City in 1986, when 12 new centres were started, compared with only seven in the previous year and only one as recently as 1981. The numbers have topped off quite smartly as the City has had to retrench in the face of the stock market crash of 1987. Last year saw only six new centres started in the City.

Yet City of London inclusive rentals for serviced offices still lead the market, with figures of £110 per sq ft topping out on Mayfair, the most popular of the West End sector, which turns in rental values closer to £100 per sq ft.

The contrast between City and West End lettings over the past three or four years reflects a deeper shift in the market. There has been a marked decrease in occupation of London services business centres by US-based companies, and a parallel increase in the share taken by UK companies which now represent more than half London occupancies.

This in part indicates the growing sophistication of the market in the UK and partly the growing internationalisation of the City of London. Business centres were well established in the US by the 1960s and US corporations operating abroad were more easily convinced of the advantages of renting serviced office accommodation. But UK clients have become increasingly willing to accept the service

More and more the serviced suite must act as the stage on which the company presents itself in an essentially foreign environment

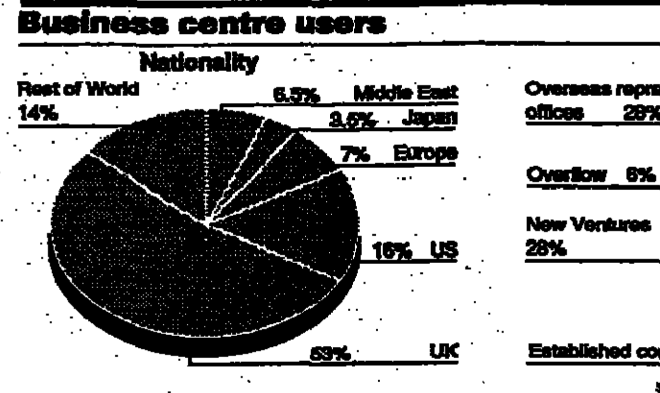
concept and have taken an increasing share of the premises available in London.

At the same time, the approach, and then the reality, of Big Bang in the City of London encouraged many US security firms to make the move from relatively short-term leased premises to longer term leaseholding or even ownership.

Winter & Co, which has been reporting annually on the serviced office market since 1986, believes that demand now outstrips supply in this sector of the office property business. Most of the smaller, badly-organised rental concerns which proliferated as in past years have now closed, Winter believes.

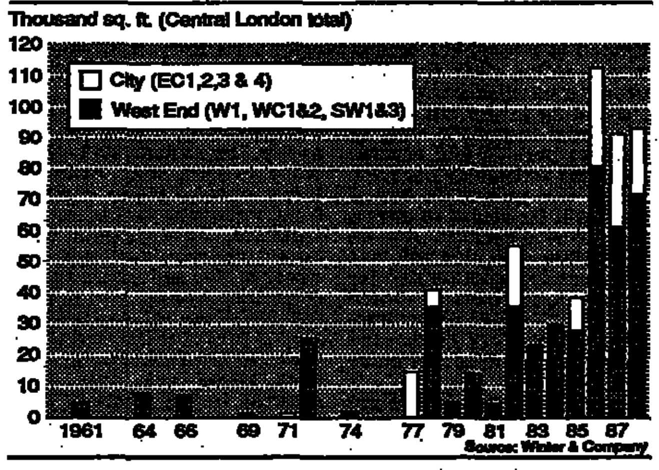
The professional standing of leased office centres has much improved and, with 1992 likely to increase the demand for office representation throughout Europe, further involvement by the bigger property institutions is expected to set the scene for a further expansion of business.

Business centre users



Source: Winter & Company, 1988 company report

Additions to total floor space



Source: Winter & Company

Analysis of property company shares

Positive rethink needed

MORE than one of the regiment of analysts specialising in property company shares on the UK stock market has drawn attention to divergence of views on the office property market between the "real property" operators and those who merely buy and sell the shares. The stock market has long decided that the property boom is ending, and that property rates poorly as an investment at present; yet, the property companies themselves continue to report a steady string of successful deals at rentals or sale prices not far from the peak levels chalked up over the past year.

The discrepancy has caused one leading stockbroking analyst to comment, caustically, that the levels of discount between asset values and current share prices is predicting "imminent thermo-nuclear war!" Dramatic words, but not entirely unjustified at a time when one of Britain's largest and most successful property groups is trading on the stock market at a 15 per cent discount to 1987 asset values.

In the eyes of the stock market, the UK property market, including the office property sector, has suffered from two loosely-related discouraging factors. In the first place, the last boom in office property, especially in the City, was clearly linked to Big Bang on the Stock Exchange, a development which has now begun to earn investment a bad name.

The flood of foreign and UK banking money into the Square Mile ahead of Big Bang changed the face, first of London and then of almost every other major town in the UK. For the property world, the sudden demand for buildings capable of taking aboard the mass of technology required to run the new electronic stock market meant a hectic programme of building new structures and completely refurbishing old ones.

But since Big Bang has been translated into Big Crash (October 1987) and the press and television have been filled with stories of redundancies and near-bankruptcies among stockbroking firms, investors have assumed that the office property market faces similar disasters. If City firms are no longer competing to pay huge salaries to unwanted yuppies, then why would they pay huge rents for unwanted buildings?

The other bear point in the general perception of property companies has been the all-too visible upward thrust in domestic interest rates. A generation of investors was taught by the 1973 property crash that high interest rates are the bane of the property world, and the lesson has perhaps been learned too well.

Property shares have been regular casualties whenever "interest rate fears" have hit the stock market, as they have so regularly over the past 12 months. Weakness in the share prices has been fuelled by losses in retail shares, which are seen both as victims of the

There may be room for reconsideration by City analysts

same interest rate worries and also a declining source of demand for new commercial property.

There is much truth in both the Big Crash and the interest rate argument, but Mr Gareth Evans of Charterhouse Tilney, a member of the Royal Bank of Scotland group, would argue that the effects have outrun the logic.

The banks and securities houses have been by no means the only tenants supporting the demand for office property. Solicitors, accountants, public relations advisers, have all expanded their roles and physical presence in the modern international financial markets. Mergers among firms of solicitors, once barely thought of, have accelerated as the more aggressive partner firms have struggled to capture a share of the new business.

This trend will be greatly strengthened in 1992 as trade and business barriers come down in Europe. Already, London houses many estate agents and lawyers dealing solely in properties in Europe, perhaps specialising in a single country. It is this area of business development that will keep demand for quality sites high, believes Mr Evans.

He quotes the recent pre-letting of 25,000 sq ft in Chancery Lane, the heart of the UK legal professions, at more than £50 per sq ft by Ortem, independent subsidiary of MEPC. Another source covering the legal profession has identified four or five solicitors or barristers wanting between 150,000 to 250,000 sq ft, and nearly 40 similar firms looking for new premises within the next two years.

The "rent index" produced by Hillier Parker, one of the largest UK agencies, shows that during the year to May, the all-property rent index was up by 21.5 per cent, with office rental growth accelerating to an annual rate of 22.1 per cent. As experienced in the domestic housing market, growth in London and the south-east may be slowing down but elsewhere it is now rising faster.

Another force likely to keep the UK office property market strong is the increasing investment from abroad, and notably from Japan. The recent purchases and development of properties as diverse as the former Central Post Office building and of Bracken House, the old home of the Financial Times, have brought record prices and, presumably, rental charges for buildings effectively discarded by their former owners as inadequate for their changing needs.

It is against this background that the recent round of profits figures from major property groups can be evaluated. MEPC's interim results showed a gain of nearly one third in pre-tax profits from a group with a 3.5m sq ft development programme in hand, at an estimated cost of £1.2bn.

Imry Merchant, in the news more because of the Rose Theatre site than its successful trading performance, almost doubled pre-tax profits this year, as well as pushing net assets ahead by more than 70 per cent.

Perhaps it can now be revealed that Land Securities is the property group which, until very recently, was trading at a 15 per cent discount to the asset value of the year before last; and this was after reporting a 29 per cent increase in pre-tax, a 28 per cent increase in net asset value, backed by 32 per cent growth in office holdings in the West End and Victoria districts.

If this news from Britain's largest quoted property company was not at first taken to heart by the stock market, then there may be room for some reconsideration by City analysts.

Terry Byland

County Hall on the south bank: a political minefield that looks as though it will be cleared after years of intensive work

PROFILE: LONDON & METROPOLITAN

Hefty children to nurture

BIG is enticingly beautiful in the property game. Economies of scale often outweigh effort divided among lots of smaller buildings. But giants are awkward and lumpy. Risks are bigger, so are development times; demand for space may have dried up by the time a scheme has moved from conception to maturity. They also breed suspicion and resentment.

For a company around for only a few short years, London & Metropolitan seems to have few fears about nurturing an impressive brood of these hefty children. A clutch of business parks in the Home Counties rack up floorspace figures like telephone numbers, although these squeaky-clean newcomers are relatively without risk because of buoyant demand for greenfield offices. And planners emasculated by changes in the Use Classes Order can cause few problems, provided development is outside the green belt.

Inner city monoliths are more of a problem. The County Hall site on London's south bank is a political minefield that has still not been cleared after years of intensive work as high as Cabinet level. However, it should be cleared by a September public inquiry into refusal of the local authority to contemplate changing the former Greater London Council's home into more than 1m sq ft of offices, an hotel and flats.

All the effort will prove worthwhile, according to Mr Chris Lewis of L&M. "The West End is fast running out of big buildings and this is a natural overspill," he says. The impending redevelopment of Waterloo Station as a Channel Tunnel terminal will also turn this into a magnet area for overseas tenants looking for quick Continental connections as well as those aiming to hire staff from commuterland.

The West End is fast running out of big buildings

Risk has been limited by spreading the scheme through a consortium of 19 shareholders – split about equally between UK and Japanese banks. L&M has a 10 per cent equity stake, committing it to around £10m. It also has an income flow projected as sole project manager and joint developer with New England Properties.

This multiple role was a characteristic built into the company when founder-partner Mr Balfour Beatty went looking for extra construction work by tapping the development expertise of the Beckwith Brothers at London & Edinburgh Trust to set up L&M. LET has now sold its interests but the two companies retain some close contacts.

One is Spitalfields market, where L&M is project manager for about 1m sq ft of offices proposed by a consortium led by LET. This is another complex saga of political protest and changing fortunes on an overspill site, this time for the City's expanding financial community. Obtaining planning permission was an epic in itself, dealing with 30 pressure groups and fending off some sharp contributions by the Prince of Wales on prospective designs. Parliament has held the whip hand since then, chewing over a special bill necessary to replace the market.

In the meantime, the goalposts have been moved. Gone are the big dealing floors so fashionable when the scheme was first proposed, so plans are likely to be changed to suit the needs of professional groups and perhaps boost the amount of shopping. The City is also set to be engulfed in a tidal wave of new office space round about the time Spitalfields should be coming on stream in the 1990s. But Mr Chris Lewis has no truck with the doom-merchants. Banking groups will be back in strength by then, and the City will be benefiting from the demand generated by the 1992 unification of European markets, he says.

Stock exchange analysts tend to be less optimistic. They are none too happy about big schemes covering similar markets and offering jam tomorrow, no matter how big the dollops. Even the lucrative profit-related return from project managing the 70,000 sq ft former Distillers House in St James's Square – expected to set new West End rent records of well over £70 a sq ft – cannot dispel all suspicions about lumpy income flow from similar markets

L&M is already trying to dispel such doubts by diversifying. Two office schemes of 50,000 and 40,000 sq ft and several business property developments have been set up in Manchester since it bought into local developer Chestergate. More partnerships could follow.

"The provinces have lagged a couple of years behind the south-east, where growth is now slowing," says Mr Lewis. "Manchester is expanding and will provide us with a springboard for long-term expansion in the north.

"We would like to find partners to do the same in places like Bristol and Birmingham, using their local knowledge but contributing our expertise of quality buildings."

He is convinced that high-specification offices, often dismissed by provincial developers, will be needed outside the south-east as tenants such as accountants demand better conditions and investors then raise their requirements.

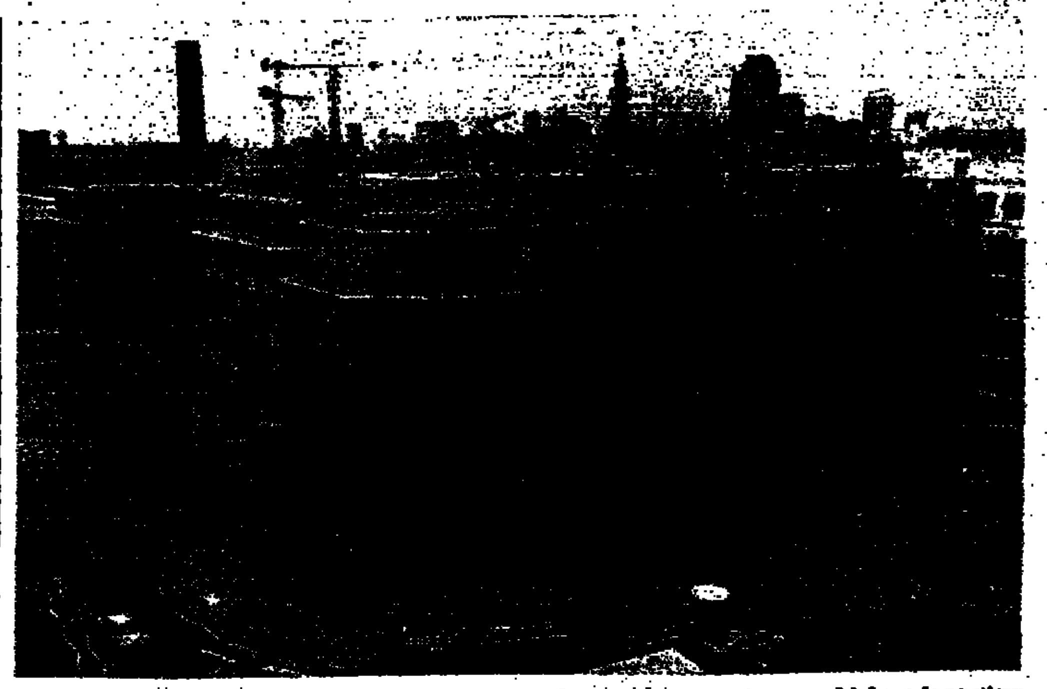
This spreading of risk is also taking L&M into smaller schemes. The company has paid £1.5m for a site on West George Street and West Campbell Street in Glasgow to develop 13,000 sq ft. Gaps in the supply pipeline for this size of development also make some south-eastern schemes attractive.

L&M has recently beat off six competitors to pay £6.7m for a site to develop 15,000 sq ft in John Adam Street behind the Strand, where the Charing Cross redevelopment is helping to boost an area where top rents are already booming. Mr Lewis also sees tenants rippling out into fringe areas such as Smithfield, where L&M picked up a site in St John Street for £4.7m and has consent for 26,000 sq ft.

The stock market wants a few dollops of jam today

This size of development can be easily held within the group's own investment portfolio, and as a newish company it is keen to expand its asset holdings. Giants may occupy a key role in the thinking of L&M, which appears to have few fears about biting off more than it can chew. But it recognises that the stock market wants a few dollops of jam today rather than the promise of great jars of the stuff tomorrow.

David Lawson



Bracken House: outsiders like the Japanese tend to buy "trophy" buildings and take a long view

Uncertainty in the City

Continued from Page 3

for future acquisitions.

Armageddon is not around the corner, however. The financial background is far more sturdy than the rickety edifice which crumpled in 1974, and both Kleinwort and BZW emphasise that most pressure will be felt by owners of older space as tenants exercise their power to choose the best. However, "old" can mean space built only five years ago.

Even APR, source of the chief bear's ammunition, feels that the City will not turn into a ghost town. "We are confident that all the office space currently being built will let," it says. "There is very little likelihood of buildings staying empty in the same way as Centre Point in the 1970s." Demand is strong, but occupiers are biding their time and becoming more choosy.

The sting in the tail is that substantial incentives such as rent-free periods and reverse premiums which may not show up on the published rental graph will be needed to attract these elusive tenants. But on the positive side, this will lead to a massive opportunity for construction groups to switch into refurbishing as tenants move out of older blocks and demand for creating new buildings slows.

Such developments will not yield the £65-£70 a sq ft now seen as the peak for prime space, however. "Car buyers want Cortinas as well as Jaguars and the same thing applies to buildings," says Geoff Marsh, managing director of APR. "Landlords will have to remember that they can't charge the price of a Jaguar for a Cortina." The bulls are not easily giving up their confidence in the Jaguar market.

Jones Lang Wootton has seen a revival already this year with supply easing by 1m sq ft to 7.5m as schemes are postponed. Fellow agents Hillier Parker points out that judgements should be made on buildings coming out of the ground, not on potential planned space. Demand figures are also looking better, according to the bulls, with JLW reporting a 1m sq ft increase to 5.5m in the first three months of the year.

Agents also have a secret weapon when critics get too uppity. Unlike analysts in their ivory towers, they claim to know about hidden demand from unofficial inquiries. For instance, JLW insists that potential requirements are closer to 10m sq ft and some 35 companies are in the market for buildings of more than 150,000 sq ft over the next three years. Hillier Parker points out that there are only five schemes in the whole of central London of more than 200,000 sq ft and at least twice that number of tenants looking for such giants.

The weakness of this argument is that potential demand ought to be treated as suspiciously as planned supply. In the long run, however, the bulls may have a stronger case. Looking to the mid-1990s, Richard Ellis and consultants Hywel Jones forsaw an extra 70,000 people working in the City because of expansion and new users moving in. The 9m sq ft they will need could be tripled by a multiplier effect of accommodation upgrading, boosting take-up to around the 26.5m sq ft that Baker Harris Saunders figures is planned for the City.

The figures look horrific, but Richard Ellis says that is how much was absorbed between 1980-87. And before anyone raises the spectre of post-crash blues, Hillier Parker points out that London is still up with New York and Tokyo as one of the big three financial centres, but a mere village by comparison. The US centre holds 300m sq ft of offices, Tokyo boasts 400m sq ft but the whole of central London is still hovering around 160m sq ft. Deciding whether to be a bull or a bear seems to be a matter of how far you look ahead.

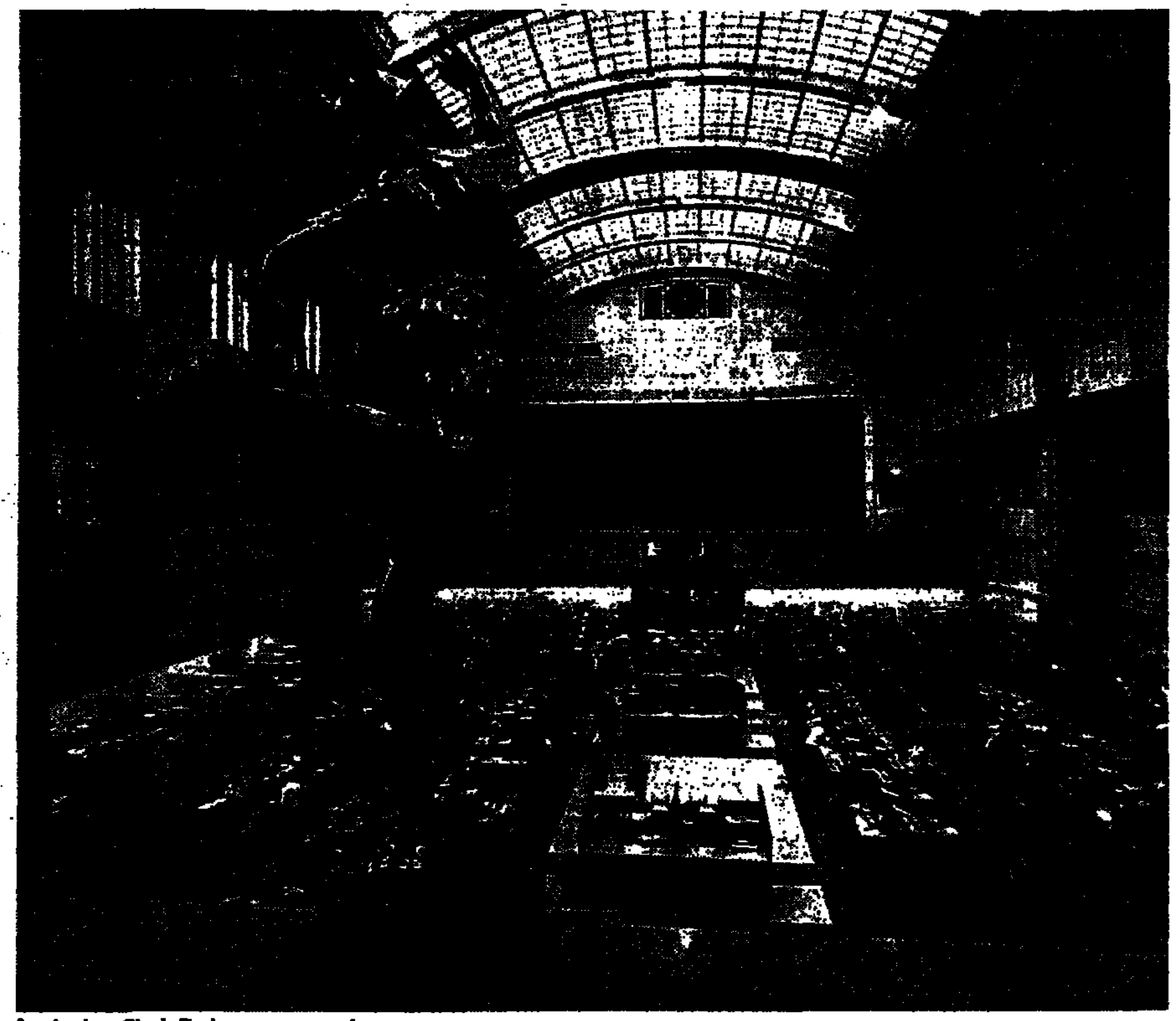
David Lawson

SECTION IV

FINANCIAL TIMES SURVEY

Members of the Netherlands banking and finance communities have joined forces in a determined bid to make Amsterdam a leading financial centre, but competitive pressures are mounting at home and abroad, as Laura Raun reports here.

Blueprint for united action



Amsterdam Stock Exchange: a record year.

Mr Onno Ruding, Finance Minister: taking a tough line.

NETHERLANDS
FINANCE AND INVESTMENT

AMONG THE European cities aiming to become international financial centres in the run-up to the genuine Common Market, few are actually doing more than Amsterdam.

Banks and other members of the financial community have banded together in an unprecedented show of unity, launching a campaign to make Amsterdam the "Financial Gateway to Continental Europe." It is a blueprint for action, designed to carve out international market *niches* and ensure that Amsterdam remains the premier centre for Dutch Guilder paper.

"We have a commitment to proceed with deregulation and liberalisation," explains Mr Onno Ruding, Finance Minister in the Netherlands' current caretaker Government. "There, we can match the situation anywhere on the continent."

The Christian Democrat-Liberal Government of Prime Minister Ruud Lubbers collapsed last month over a sweeping environmental clean-up plan, but stays in office until elections on September 6. Amsterdam's ambitious efforts are almost certain to go ahead regardless of the election outcome.

The Dutch initiative hearkens back to the "golden" 17th century when Dutch financial institutions provided models for the London Stock Exchange, Bank of England and gilt-edged securities.

By the 18th century foreign loans were parcelled up and traded in Amsterdam, which was a crossroads for international shipping and trade.

Today, a barrier-free Europe promises to transform the Netherlands' small home market into a big, international one. The Dutch, with a long tradition in trading, are loudly touting their record of free-trade, unencumbered by excessive bureaucracy. This free-wheeling atmosphere is sharply contrasted with growing regulation in London and worries of dirigist tendencies in the European Community.

In spite of the promising outlook – as highlighted by the Cecchini Report on economic implications of European integration, discussed elsewhere in this survey – some threatening trends are developing. Foreign financial institutions have flouted the gentlemanly rules of conduct that once prevailed. Cosy banking cartels are crumbling under the European Commission's assault.

Mergers are sweeping through the banking and insurance world as legal barriers between them come tumbling down. Last year's celebrated alliance between Amsterdam-Rotterdam Bank and Generale Bank of Belgium was followed this year by NMB Bank and Postbank. Verenigde Spaarbank, the biggest savings bank, plans to merge with Amev, the third-largest insurer, heralding the financial supermarket of the future. Savings banks are forging cross-border co-operative agreements with counterparts around Europe.

The area of electronic banking threatens to be one of the bloodiest battlefields of the next decade. Dutch bankers are finally starting to catch up in technology, just as customers' are demanding more convenience, cheaper services and higher yields on their money.

Hostile takeovers have yet to seriously invade the Netherlands because of companies' notoriously effective anti-takeover defences. But bracing for the worst, industrialists are adding fresh layers of protection to their already ample arsenals.

The Amsterdam Stock Exchange is still trying to prod listed companies into curbing excessive use of these defences. But it increasingly looks as though ultimate pressure will have to come from Brussels.

Indeed, European Community directives are cutting across the Dutch financial landscape in several important areas. Mergers and acquisitions (M&A's), anti-takeover defences and insider trading have been regulated through gentlemanly persuasion rather than legal constraints.

The Hague is bringing Dutch law generally into line with the directives, but Mr Ruding is publicly warning of over-regulation from Brussels. Meanwhile, Dutch companies are adding fresh layers of anti-takeover defences - permanent corporate structures which virtually prevent hostile bidders from gaining control - and corporate raiders can build up share stakes without public announcement.

A rare sense of urgency has gripped the Dutch following the realisation that huge amounts of business in guilder paper is being siphoned off by London.

Greater liquidity and transparency in London are drawing half of all dealings in Dutch Government bonds and an unknown portion of Dutch equity. This has forced the Amsterdam Stock Exchange – like its counterparts in London, New York and Tokyo – to fine-tune the market mechanism, as discussed further in the article on the Stock Exchange.

No less urgent is the realisation that financial services must be played as a trump card in the 1992 game. The Dutch economy relies much more heavily on services than on industry.

The country's banking and insurance sectors were cited by the influential Cecchini Report on European integration as being highly competitive. A Dutch government study echoed its findings.

The "Financial Gateway" plan comprises 23 recommendations for improving market mechanisms and enhancing Amsterdam's attractiveness as a place to set up shop. All the Netherlands' pillars of finance have backed the plan, ranging from the Finance Ministry to bourses, banks, insurers and accountants.

Mr Jan Steinhauser was seconded by the Dutch Central Bank to head the permanent office charged with executing the blueprint. Some Fl.3m was donated by the financial community to carry out the plan by July 1990.

"It's very important to keep the programme on a very high level because then there is competition," explains Mr Steinhauser.

"All 23 recommendations are in their common interest. One to two years is short enough to keep up the spirit, dedication and enthusiasm."

Swift steps have already been taken since the plan was unveiled in March. The Amsterdam Bourse announced plans to introduce a fixed settlement date in line with Euro-market practices to replace the floating system.

A special task force on recouping government bond business has issued its report. Most significantly it recommends replacement of the secret order book system with an open system. An open book of prices and quantities would foster transparency and competition among market markers, explains Mr G.H.de Marez Oyens, a Bourse director.

"The tempo (of trade) will be accelerated because you can look at the screen and determine whether you want to deal," he adds.

Nevertheless, Amsterdam remains firmly committed to its central market, auction concept in which trade is driven by orders. London's mixed experience with a quote-driven, direct-dealing system has only strengthened Amsterdam's conviction that it is right.

Under the "Gateway Plan," financial-market mechanisms overall must be improved so

Continued on page 2

Banking sector's vision for European "Financial Gateway"

Unprecedented show of unity

NOTHING unites enemies more than having a common enemy and that is certainly true of Dutch bankers. Foreign competition has compelled them to join forces in an unprecedented show of unity, waging a concerted campaign to make Amsterdam the "Financial Gateway to Continental Europe". They are merging to strengthen resources ahead of Europe's genuine common market after 1992.

A new Dutch Association of Bankers has been created to bring under one roof the various sectors which previously had their own separate – and often opposing – associations.

"If we don't move on a broad basis it isn't enough," warns Mr Roelof Nelissen, chairman of Amsterdam-Rotterdam Bank and a driving force behind both the "Financial Gateway" plan and new the Bankers' Association. He admits that the alignment was difficult but "we succeeded in creating a sense of urgency".

Dutch banks get relatively high marks from the European Community's Cecchini Report on the economic consequences of a barrier-free Europe. Those kudos for efficiency, competitive pricing and free capital flows are broadly reflected in a similar report by the Dutch Government's Central Plan Bureau.

But banks are being shaken to their very roots by globalisation of markets, fresh players, new rules and stagnating businesses. Retail banking, where the market is heavily saturated, could witness some of the most radical changes in the next decade.

Profit margins are shrinking under the weight of foreign competition and new playing fields are opening up. Cosy, gentlemanly cartels are under assault from the EC in Brussels.

The financial supermarket is on the horizon as distinctions blur between commercial, savings, co-operative and mortgage banks. Likewise, the lines between banking and insurance are crumbling amid liberalisation of the Dutch law separating the two activities.

Verenigde Spaarbank, The Netherlands's largest savings bank, has forged an alliance with Amev, the number three insurance company, aimed at an eventual merger. Banks can invest no more than 5 per cent of their equity in other companies (banks excepted) but this ban is expected to be dropped by next year in conformity with practices abroad.

Verenigde/Amev follows last year's highly publicised, cross-border alliance between Amsterdam-Rotterdam Bank and Générale Bank of Belgium. Savings banks in The Netherlands and Belgium have agreed a sweeping accord that aims to harmonise their activities, following similar bilateral pacts elsewhere in Europe.

NMB Bank, a commercial bank, and Postbank, the state-owned bank, will combine to create the fourth largest bank in the country. Rabobank, the big co-operative bank, increasingly acts like a commercial bank – setting up a new merchant banking division last year. Collective profits of the new "clover leaf" of top banks (ABN, Amro, Rabo and NMB/Postbank) rose a healthy 19.5 per cent in 1988, thanks to buoyant lending and a stock-market recovery. But the outlook for this year is distinctly more cautious.

Perhaps the most visible trend is the rise of merchant banking, fuelled by privatisation and international equity issues. The tradition of raising capital for companies and financial engineering is less developed than in the UK and US but demand for these services is burgeoning.

A pitched battle broke out last year when the fee structure for underwriting corporate bonds was turned upside down by Credit Suisse-First Boston and Swiss Bank Corporation.

Competition has accelerated with this year's privatisation of DSM, the Dutch state-owned chemicals company. Foreign bankers were brought in to advise both DSM and the government but Amro won the mandate for global co-ordinator.

Two big international equity issues have followed – DAF and Pirelli – and Amro snapped up more business. ABN has sought to fight back with some sharply priced issues of its own but has had its fingers burned, according to one Amsterdam banker.

"Margins are paper thin today," complains Mr Joseph Krant, managing director of Kempen & Co, a leading Dutch brokerage firm.

However, the next big battle is shaping up in retail banking. Dutch bankers have lagged behind many abroad in shifting their attention away from product marketing and toward service marketing.

The retail sector has been so overbanked for so long that product differentiation has lost much of its competitive edge. But banks have been a bit slow to recognise the opportunities in catering to customers.

Until recently private clients have been viewed as a mass market with a "herd mentality". But now they are being seen as differentiated markets, segmented by income, lifestyle and sophistication. Electronic banking is the single most important weapon in the retail battle.

"The first efforts of an emphatically customer-oriented marketing strategy can now be detected within the Dutch banking community," observed Mr H.K. Verkoren, a board member of Postbank, during a recent seminar. "Modern technology can be a helpful instrument in achieving the necessarily mass – and yet still individual – 'relations-marketing' that will replace product marketing in the future."

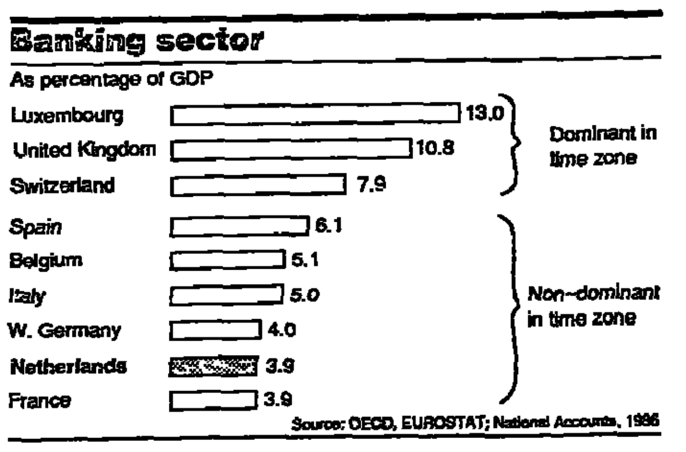
Here the Nederlandsche Bank, the Dutch Central Bank, offered advice in its 1988 annual report. Banks were urged to boost their profitability because of an historically low 0.63 per cent ratio of income to total assets.

Mr Wim Duisenberg, president of the Nederlandsche Bank, advised banks to assign risk more precisely to activities and avoid cross-subsidisation. This was particularly true in the loss-ridden payments clearing system and in emerging electronic banking services, he added.

Banks should continue to fortify their share capital if they want to maintain their internationally strong position, noted Mr Duisenberg, who is also head of the Bank for International Settlements. But he was gratified that they meet the Basle Accord capital requirements agreed by the Group of 10 top western countries and intended to take effect by the end of 1992.

In general Dutch bankers are confident of their ability to compete in the genuine market. Mr Verkoren concluded: "There is little need for fear in retail banking/product marketing of accelerating competition from foreign financial institutions after January 1, 1993 other than eventual (separate from 1993) takeovers."

Laura Raun



Source: OECD, EUROSTAT; National Accounts, 1986

Linking arms to compete

Continued from page 1

there is a level playing field within the Dutch markets and in comparison to those abroad. For example, banks are urged to make markets more actively and transaction costs are supposed to be trimmed by scrapping the stamp duty.

Amsterdam's attractiveness is supposed to be enhanced by enlarging the pool of financial specialists, boosting salaries and building more luxury housing.

Despite all the anguished calls for improvements, Dutchmen have reason to be optimistic. The Netherlands has recognised expertise in international trade finance and venture capital. Big international equity offerings, such as DSM and DAF, have succeeded grandly, raising record amounts of money and widening share ownership in the Netherlands.

Pirelli Tyre of Italy chose to launch its recent international equity offer and list the shares in Amsterdam instead of London. The Netherlands' favourable tax climate was decisive, but so was Dutch investors' willingness to "buy foreign" and relatively simple listing procedures compared to other European bourses.

Dutch bankers are generally confident. They point to a long history of open competition against foreigners, a liberal regulatory environment, a strong currency and stable economy.

The Netherlands Institute for the Banking and Securities Industry chose retail banking as the theme for its annual seminar last month. Mr H.K. Verkoren, a member of Postbank's board of management, asserted that Dutch banks were well-positioned because of relatively low margins and planned investments in technology. He added that culture, products and expectations still differed widely across Europe.

"It seems less than obvious that the Dutch consumer will immediately and en masse start banking with an Italian company after 1993, or the other way around," he observed.

Hoping for a third term

DUTCH Prime Minister, Mr Ruud Lubbers, left, looks relaxed as he is driven to the palace of Queen Beatrix in the Hague to tender his resignation.

Mr Lubbers and his Cabinet offered to resign after failing to win support in May from their Liberal junior coalition partner on a controversial environment legislation package. The Christian Democrat-Liberal Government will stay in office until elections on September 6.

Meanwhile, Amsterdam's ambitious efforts to become "the Financial Gateway" into Continental Europe are almost certain to go ahead – regardless of the election outcome.

SHORT-TERM PROSPECTS - demand and output

	Current prices Bn Guilders 1987	Weight in real GDP 1987	Per cent changes, 1980 prices			
			1987	1988	1989	1990
Private consumption	263.0	59.9	3.0	2.1	3.0	3.0
Public consumption	69.7	17.6	1.1	-0.1	0.1	0.0
Gross fixed investment	87.7	21.1	1.5	7.9	5.5	1.1
Residential	22.5	5.5	3.0	12.0	2.0	-4.0
Other private	55.1	13.2	1.6	7.1	8.0	2.5
Public	10.0	2.4	-2.7	2.9	0.0	5.7
Final domestic demand	420.2	98.8	2.3	2.9	3.0	2.1
Stockbuilding[1]	-0.4	-0.1	-0.2	-0.4	0.7	0.2
Total domestic demand	419.8	98.7	2.1	2.5	3.8	2.3
Exports of goods and services	226.6	60.7	4.3	7.5	5.7	5.8
Imports of goods and services	214.6	59.4	5.6	7.3	6.7	4.5
Foreign balance1	12.0	1.3	-0.6	0.2	-0.5	0.9
GDP	431.8	100.0	1.4	2.7	3.2	3.1

[1] Change measured as percentage of previous period GDP.

Other items

	Per cent changes			
	1987	1988	1989	1989
Consumer price deflator	-0.3	0.8	1.5	2.3
Savings ratio [2, 3]	-2.2	2.0	1.7	1.7
Total employment	1.2	1.0	1.2	1.2
Unemployment rate [3, 5]	8.7	8.3	8.1	7.8
Net lending general government (per cent GDP)[3]	-6.1	-5.2	-4.4	-4.0
Export markets, manufactures	7.3	10.8	8.1	7.8
Current balance (G1d bil1ion)	5.9	10.6	6.5	9.5
Current balance (percent GDP)[3]	1.4	2.3	1.4	1.9

2. Excluding savings via life insurance companies and pension funds.
3. Level.
4. Person-years.
5. Per cent total labour force.

Sources CBS, Nationale Rekeningen. 1987; CPB Centraal Economisch Plan, 1988 and OECD Secretariat estimates.

Advances in electronic banking

Technology battle hots up in bid to cut costs

ELECTRONIC banking has opened up a fresh battlefield where until now Dutch banks have feared to tread.

But the demands of retail banking, the need to cut overall costs and competition from other market players have forced banks to enter the fray. The crucial battle will in years to come determine the infrastructure and pricing of electronic banking.

"The private bank client increasingly wants to – and can do – more himself; and the bank must reduce the costs of simple transactions," according to Mr H.K. Verkoren, a member of the Postbank management board. "Therefore, 'technology' will be the most important factor to determine the further development in retail banking."

Dutch bankers have lagged behind most others in western Europe in electronic banking. They have smugly called their giro clearing system one of the most efficient in the world, yet it collectively loses Fl100m a year.

New technology often costs more than it is worth in the first generation and learning from others' mistakes would be wiser, they argued.

Privately, they admit having badly under-estimated consumers' desire for automated tellers' machines (ATM's), point-of-sale (POS) terminals and home banking terminals. Customers queue up by the dozen to use ATM's.

Regardless of the merits of the arguments, however, bankers now recognise the promising role of electronic banking in product and service distribution. "The quality of the electronic infrastructure will be an important factor in the success of qualitative growth," Mr Verkoren told the recent annual seminar of the Netherlands Institute for the Bank and Securities Industry.

Corporate clients were the first to benefit from electronic funds transfers (EFT) services. Businesses linked their computers to those of banks to speed up payments transfers and to manage cash positions electronically.

Meanwhile credit card companies, retailers and insurers saw that private clients also wanted easier and cheaper ways of banking. These new players sought to fill the gaps, unleashing a flood of gadgets and cards – credit, debit and chip – from banks and other companies.

Around 1,500 ATM's are now dotted about the country and that could jump to 2,500 by the end of the year. POS terminals number about 1,500.

About 8m bank cards – more than half the population – are in circulation. But Dutchmen carry only 500,000 credit cards because banks have adamantly opposed them. Algemene Bank Nederland recently became the first commercial bank to introduce its own credit card. Consequently, private label cards are proliferating.

Chip cards are in their infancy as debate rages over the safety features as opposed to magnetic-stripe cards. In October a Fl10m experiment will be launched by banks, government and consumers to judge the merits of the computer chip-embedded cards.

There is a rising public demand for automated services

Postbank is in the vanguard of electronic home banking, which is still a nascent service. The gradual emergence of videotext is expected to foster PC banking.

A particularly Dutch aspect of electronic banking is the demand for extremely high security standards that surpass most countries. The anti-fraud standards are so stiff that the costs of equipment and services are higher, according to Mr R.J. Kolijn of Beanet, the new electronic network established jointly by the banks.

Two reasons are cited. Plastic cards are distributed en masse because in the egalitarian Netherlands banks cannot screen out bad risks.

"Here everyone, including welfare recipients, can get a card," Mr Kolijn explains. "The banks want the system to be as secure as a cheque because POS transactions are viewed as guaranteed payments."

The second reason is an obsession with secrecy that dates back to the Second World War, when meticulous public records allowed the Nazis to find many Jews. Since then the Dutch have been extremely sensitive about efforts to collect personal data from private individuals.

Now the urgent question is who will provide a secure infrastructure that is still affordable for banks, consumers and retailers. Negotiations are underway between the three groups to reach a consensus although some agreements have already been reached.

Consumers are liable for the first Fl350 of losses due to lost and stolen cards and identification numbers and the banks for the next Fl750.

Broadly speaking banks will probably bear about one-quarter of the financial burden and retailers and consumers three-quarters, according to Mr Kolijn.

Mr Hans Kiers, of Computercentrum van de Velden, claims his computer firm can process payments electronically for 7 Dutch cents a transaction, or one-seventh the cost of Beanet. Van de Velden is trying to establish an electronic network to compete with Beanet, arguing that a monopoly will result in higher prices.

But Beanet banks retort that only through economies of scale can a small country like The Netherlands offer affordable electronic banking. Beanet claims that for processing credit card bills it charges retailers Fl7.50 per transaction and 2-5 per cent of the purchase.

What is clear is that the battle in electronic banking has only just begun. With the approach of a barrier-free Europe it can only escalate.

Laura Raun

Profile: Onno Ruding, Finance Minister

On the hustings

MR ONNO RUDING will go down in history as the hard-line Dutch Finance Minister who disciplined the Netherlands' lax finances.

The two-term Finance Minister was seen by many as ready to stand down and return to the private sector with a justified sense of accomplishment. But now Mr Ruding is talking like an actively campaigning politician who wants a fresh mandate to serve the public.

"My preference is to continue the present coalition — and then you are sure of a continuation of the present policies," he explained during a recent interview in his airy office, overlooking The Hague's Maliveld. "I would not exclude any new team, including one with the Socialists. But we know the present policies are successful."

Mr Ruding is, in fact, on the hustings, as are all of his colleagues in the Christian Democrat-Liberal Government of Prime Minister Rudd Lubbers. Early general elections will be held on September 6, following the centre-right coalition's collapse over an ambitious environmental plan.

Mr Lubbers' policies have been designed to slash the gaping government budget deficit, shrink the huge public sector and fortify the private sector. Mr Ruding, a centrist Christian Democrat, has been the driving force behind the austerity policies pursued since 1982. As keeper of the state purse strings, he has ceaselessly insisted on budget discipline even as other cabinet ministers overspent.

Mr Ruding became the scapegoat of Lubberian policies. But he notes with more than a hint of satisfaction that he is now one of the most popular politicians in the Netherlands.

"I rank very big in the polls," he says, proudly. "I think that counters the criticism and shows that my convictions are shared by the people in the street."

Last April, however, the Finance Minister's patience wore thin and he threatened to resign unless other ministers reined in runaway spending in their budgets.

The Liberal Party, junior partners in the governing coalition, saved him the trouble of resigning by bringing down the Government on May 2. There has been wide speculation that Mr Ruding would return to Amsterdam-Rotterdam Bank, where he worked before entering public office. Meanwhile, he insists that he has "no time to think about the future."

The 49-year-old Mr Ruding is the epitome of Calvinist sobriety. He is as intelligent and articulate as he is hard-working, determined and stoic. Political cartoonists depict him as a stereotypical book-keeper with oversized spectacles.

He began his career at the Finance Ministry in 1965 and later moved to Amro, the country's third largest bank, where he became managing director. In 1977, he was appointed executive director

Interview by Laura Raun

of the International Monetary Fund and worked in Washington D.C. until 1980, when he returned to Amro. Two years later he joined the first Lubbers Administration.

Living in Washington had ignited a passion for international banking that, at times, has contrasted sharply with apparent boredom with Dutch politics. In the past, he has chaired the board of governors of the Asian Development Bank and European Investment Bank, as well as headed the Group of 10 industrialised countries.

Now Mr Ruding is chairman of the IMF's Interim Committee, its policy-making arm, and thus is closely involved in Third World Debt problems.

He will chair the autumn meeting of the Interim Committee, since no new Dutch government is expected to be installed by then. In preparation for the meeting, Mr Ruding will meet with Mr Michel Camdessus, managing director of the IMF, and Mr Barber Conable, head of the World Bank, at the beginning of July.

Ironically, it was Mr Camdessus' job that Mr Ruding wanted so much, three years ago — perhaps more than any other position. The determined Dutchman lobbied hard, maybe too hard, but was opposed by some indebted countries which feared his strict policies. After this disappointment, Mr Ruding eventually bounced back and has taken a leading role in the question of the IMF's role in debt reduction. He argues for caution.

"If greater involvement of the IMF or World Bank would lead to an indirect bailing-out of commercial banks, we would enter dangerous ground," he has warned. "The IMF must also observe other objectives, such as maintaining liquidity of the institution."

An economist with a doctorate from Erasmus University, Mr Ruding also chairs the Inter-American Development Bank (IADB).

In the European Community, Mr Ruding is an outspoken proponent of free capital flows and tax harmonisation, but insists on a pragmatic approach to economic and monetary union. Recently he tried again to persuade Mrs Margaret Thatcher, the British Prime Minister, of the merits in bringing Sterling fully into the European Monetary System.

"I am well-known for making my arguments explicitly," he admits. "Whether they were convincing, I don't know."

Mr Ruding hopes that a single European currency and central bank can be achieved by 2000, but stresses that practical steps must come first. For example, France and Italy must end all capital controls by July 1, 1990.

"This is a hint to my French friends," cautions Mr Ruding. "It is a test of their commitment-honouring their capital liberalisation commitment." If they fulfil that promise then pressure on Britain will increase he reasons.

If Britain still refuses to join the exchange rate mechanism, then momentum for a two-speed Europe will gather pace, he believes — "in principle, we hate the two-speed syndrome," he concedes.

Mr Ruding would have to give up his international posts if he returns to the private sector — but given his sense of *noblesse oblige*, he seems more likely to stay in public service.

Record year for the Amsterdam Bourse

Debate over the trading system

BUSINESS is booming at the Amsterdam Bourse. The Stock Exchange has enjoyed the two biggest stock flotations in history and the first quotation of a foreign company in Dutch Guilders during the past half year. Another big privatisation is on the way and signs are that "people's capitalism" is making headway, albeit slowly.

But members of the financial community — like Dutch housewives who scrub even when there is no dirt — are seeking perfection. They are determined that Amsterdam compete with the leading financial centres of the world — and nothing less will do.

The largest share flotation was the Fl1.3bn privatisation of one-third of DSM, the state-owned chemicals company, in January. That was followed by the Fl843m flotation of 60 per cent of DAF, the truck maker, in May. Earlier this month, Pirelli Tyre, the highly successful Italian tyre maker, announced plans to float 20 per cent of its shares on the Amsterdam Bourse, quoted in guilders.

Dovetailing with these flotations has been the spread of share ownership among small investors. This Spring, nearly 15 per cent of Dutch households owned equity compared with 12 per cent in 1986.

Pirelli Tyre said one of the reasons it chose Amsterdam instead of London was the willingness of Dutch investors to buy foreign stock. About one-fifth of small Dutch investors hold foreign shares.

More is yet to come. Another one-third tranche of DSM will be privatised in September. The planned privatisation of NMB/Postbank may be more subject to political vagaries. Despite the obvious successes, Amsterdam — like London — is engaging in much soul-searching about its trading system.

Amsterdam has plumped for an order-driven auction system in which all bids and offers flow together to create the "best price". The Dutch argue they actually have the best of both worlds because the Amsterdam Inter-professional Market (AIM) was introduced two years ago.

AIM is a bloc-trade system in which banks and brokers on one hand can deal directly with institutional investors on the other hand — bypassing the *hoekman* (jobber). Trades must be larger than Fl1m in equity and Fl2.5m in bonds and prices must be reported back promptly to the trading floor to maintain the link with the "best price."

This is in contrast to London's quote-driven system in which exchange members deal directly with each other on the basis of electronically-posted quotes. Baron Boudewijn van Ittersum, chairman of the Amsterdam Stock Exchange, staunchly defends the concept of a central trading floor against claims that it is sluggish and old-fashioned. He firmly believes that people need to physically congregate to buy and sell.

"We feel — and I don't know whether this is true in London — that to absorb all the information one should be on a central floor," he explains in his wood-panelled office in the exchange building. "All orders should come together and be dealt with equally."

But soul-searching is evident in the seminal report, "Amsterdam: Financial Gateway to Continental Europe." The report has 24 broad-ranging recommendations for improving Amsterdam's financial markets and attractiveness as a place to set up business.

The action plan, unveiled in March, recommended that several task forces study ways of improving liquidity and transparency on the Bourse. The task force on bond trading was first to issue its report, reflecting near panic about recouping business lost to London. It is believed that up to half of all deals in Dutch government bonds go through London, twice the amount of two years ago.

"In the market, the impression exists that in Amsterdam the readiness to deal and the speed in large trades in state bonds (Fl10m and above) lags behind that in London," the task force observed. "There is a difference in attitude between the Dutch and Anglo-Saxon intermediaries, through which our competitiveness is threatened, not only abroad but also in our own market.

"The English/American intermediaries are in general more 'sales' oriented than the Dutch," the task force continues. The panel reasons that liquidity may be sufficient but market players believe it is lacking. "The more active London approach is stimulated by a market-maker's attitude, which differs sharply from the Amsterdam system for dealing in state bonds," the task force admits.

The report recommends a series of measures to make Amsterdam more competitive:

- Abolition of the stamp duty to trim transaction costs.
- Fixed settlement date instead of the current floating one.
- Open order book to replace the secret one at present.
- More differentiated commissions to foster various order sizes.
- Extended trading hours.
- Publication of turnover in trades with foreign financial institutions, which are not counted now.

To set a good example, the Exchange has announced plans to introduce a fixed settlement date in conformity with Euromarket practices. Clearly rejected were direct dealing between exchange members and creation of an interdealer broker, who would "grease the works" by acting only as agent.

Nevertheless, some task force members argued that AIM is hobbled by the obligation to link prices for bloc trades to the central price. The task force recommendations represent a victory for the *hockman* firms, which have looked like an endangered species at times. To survive financially they have merged furiously, shrinking to 25 last year from 41 in 1987. Now the task force suggests that perhaps more are needed.

Banks, for their part in the "Gateway" plan, have promised to make markets more actively in Dutch stocks and bonds. But direct dealing is essential, bankers contend, if they are to allocate more risk-bearing capital to market-making. On another recommendation Mr Onno Ruding, the Finance Minister, has pledged to try and scrap the 0.12 per cent stamp duty on securities transactions. He probably will propose abolition in the 1990 government budget but the rest depends on the new Parliament following the September general election.

Conspicuously missing from the "Gateway" plan was any mention of Dutch companies' notoriously protective anti-takeover defences. So controversial have the defences become that the Bourse is now engaged in quiet diplomacy to try to persuade company managers that they must get in step with Europe before 1992.

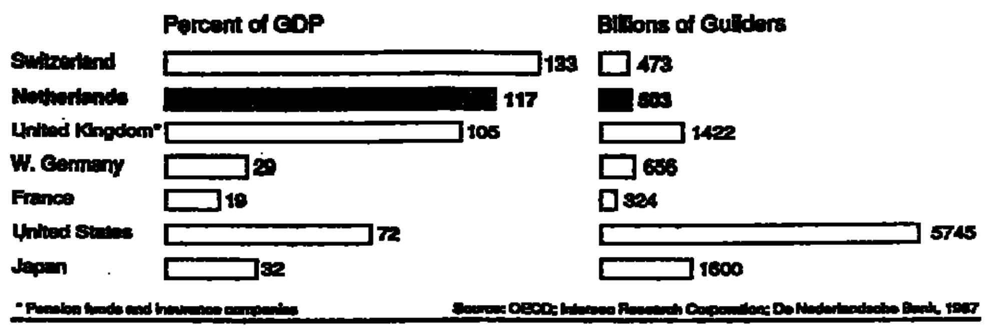
Also absent from the "Gateway" blueprint for action was a plan to modernise one of the most antiquated customs on the Stock Exchange. Trading is halted for hours or days for routine announcements such as half-year figures and corporate takeovers. Such halts give small investors time to hear the news, according to the Bourse. But trading suspension tends to fuel more rumours than it lays to rest.

Careful scrutiny of the "Gateway" plan reveals that recommendations were made only where consensus could be reached among all members of the financial community. Some glaring gaps remain.

Laura Raun

Capital of institutional investors*

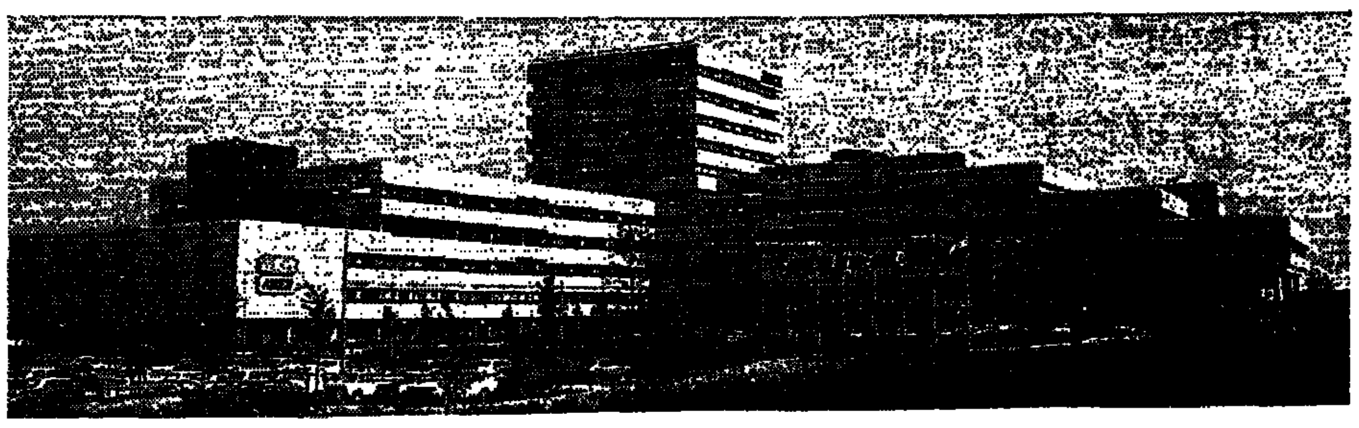
Comparisons with seven countries



* Pension funds and insurance companies

Source: OECD; Intersec Research Corporation; De Nederlandsche Bank, 1987

Amsterdam has plumped for an order-driven auction system.



Amev Group heaquarters: far-reaching alliance with Holland's top savings bank, Verenigde Spaarbank

David Brown looks at the insurance industry

Competitive edge sharpened

HOLLAND'S competition-hardened insurers have been fast out of the gate and are positioning themselves well for the high stakes of 1992's single market in Europe. They are preparing, at home and abroad, through a broad range of mergers, takeovers and market innovations.

Perhaps the most important development was the announcement, last March, of plans by the third-ranked Amev Group to exchange a strategic shareholding of 15 per cent with the unquoted Verenigde Spaarbank (VSB), Holland's top savings bank, as a prelude to a more far-reaching co-operation and even merger.

Considering the relative size of the two players, with VSB only a third as big as Amev, the agreement, if it is realised, might more aptly be seen as an *effective* takeover.

The move is set against a broader European trend; the progressive relaxation of the old, firm boundaries that used to separate banking and insurance. The recently-unveiled "marketing pacts" between Allianz and Dresdner bank in West Germany, and between Banque Nationale de Paris and Union des Assurances de Paris in France are only some examples.

What is notable about the Amev-VSB proposal is that it goes even further than any other European "Allfinanz" scheme unveiled to date, setting the precedent of a potential full merger. This has been made possible by The Hague's plans to abolish, perhaps within a year, the regulations that have hitherto insisted the fence between the two financial preserves be retained.

Several analysts are sceptical about the promised benefits as far as Amev and VSB are concerned, pointing out that the many other Dutch banks which distribute Amev's insurance policies may not be overjoyed by this new relationship. The share swap will also modestly dilute both earnings and net assets in the short-term.

But there is a consensus the two companies are well matched in terms of their policy and account-holder base in Holland, where customers tend to be loyal in their financial relationships, and that the deal is likely to open up new business opportunities over time.

The retail market, and small and medium-sized businesses may find there is an expanded range of services to choose from.

Holland's insurers have long lived with severe competition

Meanwhile Amev, which had total revenues of Fl.8.5bn last year, continues to move abroad; after a spate of purchases in Hong Kong, Singapore and the UK since 1987, Mr Joop Bortelds, chairman, says: "Further acquisitions are certainly not excluded."

(Amev managed a good improvement in its life insurance profits in 1988, although there were more mixed results in the non-life sector; overall profits declined to Fl.276m, a picture broadly in line with expectations.)

Another company casting its eyes abroad is Stad Rotterdam. While small, with premium income last year of only Fl.1.92bn, but strong profitability, Stad is highly rated for the flexibility and innovative outlook of its management.

In May, it announced it was on the prowl for a prospective European partner - with the idea of concluding its strategic share swap of say 10 per cent.

"We would have to see how we get along before we get married," says Mr Luck van Leeuwen, "but I would not be amazed if we saw a merger developing in some years' time." The company has not yet allowed itself to be drawn on who it might be negotiating with, or where, except to say it is outside the Benelux region.

Stad's core business is the Dutch life and non-life sector. Mr Van Leeuwen insists that, while there is certainly further scope for expansion here, a "co-operation pact" is a critical precondition if Stad is to play a European rather than strictly Benelux regional role in the EC insurance market.

Another candidate for merger might be Aegon, created in 1983 by a fusion which is now helping it achieve important cost-saving benefits. The company saw net profits advance by 15 per cent last year to Fl.389m on premiums of Fl.6.4bn. It has also expanded rapidly, at some cost to its balance sheet, but is expecting a further profits growth in 1989 despite the new business strain in the life insurance sector.

Last, but certainly not least: Nationale Nederlanden, Holland's top insurer with total revenues to Fl.10.2bn last year and profits of Fl.389m, has been leading an aggressive international charge; with an already global spread, it is consolidating its position in fast-growing markets and expanding in North America.

Its biggest acquisition in North America, which in total has cost some Fl.1.6bn since last November, were Southland Life, Commassur of Quebec and Mony (Canada). Soon afterwards, it announced plans for a one-to-one rights issue to *raise about Fl.750m.*

Holland's insurers, working on a traditionally open home market which is ranked as one of the world's top 10, have long lived with severe competition, especially in the non-life sector. The 10 largest players control more than 80 per cent of the Dutch market. Many smaller and weakened niche players may be taken over or fold in a restructuring over the coming months.

Margins in the life sector have fared reasonably well until now, helped by a strong economy and lower unemployment, but are thinning. The Eagle Star group, for example, has started to introduce even more finely-priced low-margin Universal Life products.

"If I were a Japanese insurance company looking to expand in Europe," says Stad Rotterdam's Mr Van Leeuwen, "I would look at the margins and decide to go to France, *Italy or Belgium instead."*

Meanwhile, all are breathing a sigh of relief about the political disarray in The Hague; it means at least a short-term reprieve from planned new taxes, and some breathing *space to consider* the implications of a sweeping reform of the country's health care system.

The state-owned Postbank, above: merging with NMB Bank.

The NMB Postbank plan

Difficult birth for a new giant

AN AMBITIOUS public-private merger plan aimed at reshaping the face of Dutch banking is moving close to reality after a troubled start. However, it still faces a rough patch.

Early this year, in a joint announcement, NMB Bank, the country's number four bank, and the state-owned Postbank group unveiled a proposal to merge the two institutions. They would privatise the Government's shareholding, and create "one bank with the strategy and one management and various market formulas under one roof".

The newly-merged institution, NMB Postbank, would represent an important fourth pillar in Dutch banking, challenging the predominant role on the private market at home.

It would also rank in the top 25 of European banks with assets of Fl.145bn.

But the difficulties and the price involved in translating the idea into reality suggests some potential pitfalls facing the fledgling institution in the months ahead.

The lengthy negotiations surrounding a critical labour accord, and the price of the ultimate agreement, are some cause for concern, analysts say. As late as mid-April, Mr G.J.A. van der Lugt, Postbank's chairman, was optimistically predicting a "speedy accord" with his bank's restive labour force, which has enjoyed a cushy deal since the 1986 merger that gave birth to their parent.

Measured in terms of wages *and benefits, the Postbank* pay package was well in excess of the norm in Dutch banking. Moreover, as a price of their co-operation in that merger, between the then National Savings bank and Postal Giro system, the unions extracted an iron-clad commitment to a policy of no forced layoffs through 1991.

The unions did not greet attempts to bring their agreement into line and water down the 1986 agreement with any great enthusiasm, and the accord was neither "speedy" nor cheap.

An accord between the unions and banks finally was reached in the early hours of June 10 after an all-night bargaining session. It will cost the employers Fl.60-80m in job guarantees and perquisites, according to one union negotiator. None of the 23,000 employees can be forcibly laid off before January, 1992; and Postbank workers will get more vacation days. About 7,000 low-level staff members are to receive a 1.5% salary boost and a Fl.7,000 increase annual pension benefits. Postbank's generous benefits for pregnancy, birth and child care will be extended to NMB. The difficulties in reaching this accord point to the broader challenge facing the new institution: merging a market-oriented and competitive corporate culture with a civil service mentality cheaply and quickly enough to thrust into important new markets, against the ever-changing landscape of European banking as a whole.

On the positive side the deal gives NMB access to relatively cheap fundings given that one out of every three Dutch have an account with the Postbank. It will use this to bolster its corporate finance operations in direct competition with Amro, and to a lesser extent expand its international spread.

NMB Postbank will be an important fourth pillar in Dutch banking

"One might have wondered why they did not reach an agreement with a foreign institution, like Amro did with Générale of Belgium," says an analyst with Barclays de Zoete Wedd. "But they've done as well as they could on the domestic market.

"It's a perfect fit," says Mr Fokko Tuin of Kempen & Co. "NMB will obtain better marketing as a result" despite the heavy initial costs. He says Postbank will bolster its strength on the domestic retail market, while NMB will be able to build on its traditionally solid position among small and medium-sized business.

"They will have to invest some resources, and face higher costs at the beginning, but I think the Dutch market will see more competition especially on the securities side," says Mr Tuin. "Margins in the securities business will decline."

On the international side, where NMB already has a profitable network of some 40 foreign offices, expansion is likely to be restrained in the medium term.

The plan is for the government to trade its Postbank shares of NMB equity on a one-for-one basis. Emerging with 58 per cent, then in possibly more than one branch to privatise all or part of its holdings.

For two years, both would *maintain their separate corporate identities and subsidiaries* of an NMB Postbank holding company, with separate payments transfer systems. Eventually bringing these systems together, and modernising the electronics banking facilities, are expected to entail considerable resources.

For Giro clients a new range of services will be offered; securities trading, investment funds and insurance for instance. Postbank is committed to maintaining most of its 2,700 counters rented from the PTT, while the NMB will maintain its range of full-service offices around the country. Some analysts feel a number of these offices will have to go. Moreover it is not clear whether the privatised PTT, which leases the counters to the Postbank, will want to develop these as profit centres of its own after the lease expires in 1995. Commissions to the PTT account for 35 per cent of the Postbank's total costs.

Given all the difficulties facing the new bank, analysts expect it will remain largely dependent on the cycles of the Dutch domestic market for some years to come.

"These two will have their hands very full at home trying to organise this merger," says the BZM analyst. "It will be a very time-consuming process and they will not have much time to devote to building up abroad."

David Brown

FINANCIAL FUTURES MARKET

Young and full of confidence

THE AMSTERDAM Financial Futures Market (FTA) is young, but full of hope. A new Dutch bond future was introduced earlier this month, generating turnover of 500 contracts on the first day of trading.

It is a futures contract on a hypothetical 7 per cent Dutch Government bond, with a nominal value of Fl.250,000. Settlement is through physical delivery.

The new Dutch bond future contract specifications are similar to the German bond future on the London International Financial Futures Exchange, (LIFFE).

The German bond future reflects West German capital market interest rates, for which there is a growing demand. By introducing a similar contract on Dutch capital market interest rates, the FTA hopes to provide investors with the same opportunities for hedging interest and bond market risks — with a contract based on physical delivery.

The FTA bond future is being introduced primarily at the request of the professional market. Physical delivery is expected to improve the quality of price formation. Professional traders will be able to combine their futures positions in London with a position in Amsterdam because contract specifications are similar and are terminated at exactly the same time, explains Mr Robert L.Sandelovsky, FTA'S Director.

"I very well realise that we are small compared to London's Futures Exchange where a bond like this books 20,000 contracts a day," he admits. "But we are a healthy baby, growing rapidly; mother and child are doing well."

The mother is Amsterdam's European Options Exchange (EOE). The FTA has a corner on the EOE floor.

Mr Sandelovsky is confident in the future of the FTA, although some people claim that expertise is lacking on the Amsterdam Exchange. He denies this, but thinks "traditional attitudes have kept some good people in the wrong places."

It is this conservatism which has kept the very substantial Dutch pension-funds — among the world's largest — from using the financial futures more extensively. In London, the Futures Exchange is bigger and more aggressive "because British professional investors want to make profits, rather than an investment, as the Dutch still do," he says.

'I realise we are small compared to London's Futures Exchange. We are a healthy baby, growing rapidly.'

In August, a new bond future based on the five Dutch multinationals, namely Philips, Akzo, Royal Dutch, Unilever and KLM, will be introduced. By doing so, Amsterdam hopes to attract more international investors.

The new bond future contract opens up new perspectives for international investors and professional traders to hedge their risks and protect bond portfolios against the effects of a decline in the bond prices.

The main difference between this bond future and the existing contract is that the new future is based on physical delivery of bonds when the contract expires. Existing bond futures are settled solely on a cash basis.

The underlying value of the FTA bond future is a hypothetical government bond with a nominal value of Fl.250,000, and a coupon yield of 7 per cent.

All bullet-type government bonds with an outstanding amount of at least Fl.1bn and a remaining life of between 8 and 10 years, are eligible for delivery. The futures price of the hypothetical goverment bond is calculated on the basis of the market price of the cheapest-to-deliver bond, multiplied by the conversion factor determined by the FTA.

Because of the conversion factor, all eligible bonds are inter-changeable. The new future will trade in the March-June-September-December delivery cycle.

The last day of trading is the seventh calendar day of the month, or if this is not a business day, the first business day thereafter. The FTA bond future is the third contract to trade on the Financial Futures Market, Amsterdam.

The FTA Bullet Index Future began in May 1988, followed by the introduction, five months later of the futures on the EOE Stock Index, (FTI). The FTA Bullet Index is the unweighted average of the prices of the 19 Bullet State bonds.

The FTI contract is based on the EOE Dutch Stock Exchange Index.

The volume last year on three futures are was as follows:

☐ Futures contract based on EOE-FTA Bond Index: 34,215.
☐ Futures contract based on FTA Bullet Index: 55,134.
☐ Futures contract based on EOE Dutch Stock Index: 34,405.
☐ The total was 126.754.
☐ Open interest as of the end of 1988, was as follows:
☐ EOE-FTA Bond Index, 475.
☐ FTA Bullet Index, 5,233.
☐ EOE Dutch Stock Index, 4,033.
☐ The total was 9,742.

Friso Endt

The European Options Exchange

Breaking all records in Amsterdam

AT THE European Options Exchange, (EOE), this is the year when all records will be broken – when average turnover for the first six months was 22.42 per cent up from 1987 (which was also a year previous records were broken).

Mr Tjerk Westerterp, president of EOE, boasts that, in 1988, Amsterdam took the lead from London. The figures for the first six months of this year were: Amsterdam 5,520,036 contracts – and London, 4,238,697.

Mr Westerterp confirms that 1988 was the year of "restoring confidence," following the October Crash.

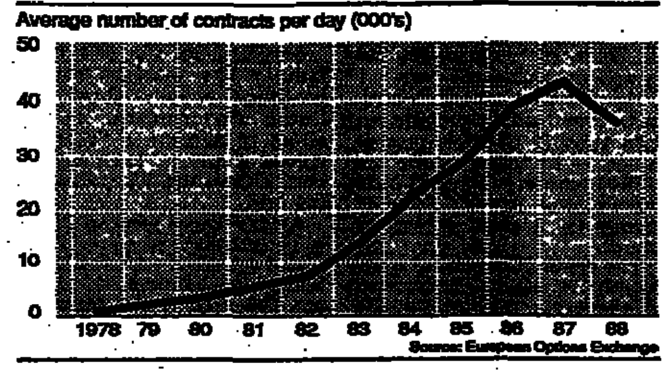
"To the surprise of many," he says, "markets picked-up steadily over the year."

The private as well as the institutional investor returned to EOE after the October 1987 crash, contrary to London. The introduction of the index options has done the EOE market "a lot of good," according to Mr Westerterp.

The EOE Dutch Stock Exchange Index (introduced in May, 1987) is significant: on November 16, 1987, the EOE Dutch Stock Index was quoted at its lowest of the year, namely 151.28. In 1988, the index opened at 168.35 and closed in December at 252.23, close to the highest quote of October, 1987, i.e., 286.72.

In Chicago, 50 per cent of the trade is aimed at the index Options; in Amsterdam, close to 20 per cent. Since June, Amsterdam has introduced a new index-option: the five Dutch internationals, Philips, Unilever, Royal Dutch, Akzo and KLM.

"This is another instrument in our efforts to lure the insurance companies and the pension funds in our EOE," says Mr Westerterp.



Indeed, index options in shares have been quite successful with Dutch pension funds, considered to be the richest in the world. Alexander A. van Droogen, the marketing manager of the EOE, says London took the lead over Amsterdam in 1987.

Amsterdam traded in 22 Options only, and London in more than 80, but the comeback is due to a large scale public relations campaign, bringing more than 14,000 interested Dutch people to the Option Exchange Building, in the heart of Amsterdam, for a 1½-day information course.

Another significant signal is the outcome of a survey of 15,000 Dutch households, which indicates that the Dutch options-investor is not a dashing 'yuppie-type,' but typically "the solid, homely Dutch father with four children."

Of all Dutch families, only 2.8 per cent invest in options. Among these, options-owners (81 per cent) combine options with ownership of shares and Bonds, but only 19 per cent owns nothing else but options.

At present, 15.2 per cent of Dutch families are investing in stocks, and of these, the categories are:

□ In options only: 0.5 % per cent.

□ In options and shares/bonds, 2.3 per cent.%

□ In shares and bonds only, 12.5 per cent.

Households with no stocks at all amounted to 84.7 per cent. The 2.8 per cent investing in options indicates an equivalent of 160,000 Dutch households, adds the report.

People were also asked if they had plans "to go into options" - and the survey shows that 5.8 per cent of all Dutch households would like to do so in the 1989-90 period. The poll also revealed that the average age of the options-investor was 43 years, while the "traditional" shares/bonds investor's age is around 48.

A significant problem for the EOE is the lack of market information among potential options-owners, while only 33 per cent of investors have attended briefings on options investment. About a third of the people surveyed said they wanted more easily-understandable information.

The value of options-ownership is as follows:

- Fl1,000 (or less) 26 per cent of investors.
- Fl1,001-2,500, 13 per cent of investors.
- Fl2,501-5,000, 14 per cent of investors.
- Fl5,001-10,000, 36 per cent of investors.
- Fl10,001 and higher, 21 per cent.

Around 88 per cent of options-investors are active only in the Netherlands; 8 per cent also operate abroad; and 4 per cent only operate abroad. These foreign activities are mainly limited to London, New York and Chicago.

Controversies among option exchanges in Europe involve the difference between fully automated systems, brokerage systems and "open outcry" systems. Sweden has opted for the brokerage system, West Germany for the automated system, while Amsterdam prefers the "open-outcry" system, including the market-maker system, similar to Chicago's.

Mr. Westerterp, a former Under-Minister for European Affairs and Minister of Transport, wants to expand the "European" aspect of the European Options Exchange, although some Dutch bankers are convinced that the Amsterdam Options Exchange can do without its "European leg."

Optimistic: Mr Tjerk Westerterp, president of the European Options Exchange, (left). The past year has been one of "restoring confidence" among private and institutional investors, he says.

Mr Westerterp, who is clearly a realist, agrees that for the time being European co-operation in this area will be somewhat limited, but he adds: "In the long run, we will have to co-operate in Europe. The Americans want to go global – they have said so, repeatedly. Japanese options exchanges are growing rapidly, the index options were introduced in Osaka in early June.

"In that noisy battlefield, we will have to survive and the only way of surviving is by way of co-operation."

Mr Westerterp has Fl.100m in cash available which, in his view, could be useful in a future link-up with a European partner like Brussels - or, he adds with a smile, "when the day comes that London's Options Exchange cuts itself loose from the London Stock Exchange, then we will be waiting with our ready-assets for a very serious partner."

Friso Endt

Privatisation

No rush into 'people's capitalism'

WITH two huge privatisations of state companies on the horizon, many politicians would be rubbing their hands with glee. But not Mr Ruud Lubbers, the caretaker Prime Minister who is now campaigning for the General Election on September 6.

Privatisation is not even an issue in the campaign, despite the planned privatisations of one-third of DSM and one-half of NMB/Postbank.

Mr Lubbers and his Christian Democrat-Liberal Administration have viewed privatisation primarily as a way of raising money to help balance the gaping budget deficit. It has also been seen as a method of rolling back the public sector while fostering the private sector.

Privatisation in the Netherlands is still relatively limited

"Wider share ownership has never been considered the kind of prime policy objective as in the Thatcher Government or previous French government," admits Mr H. Onno Ruding, the Dutch Finance Minister. "We're a bit less hot on it."

"People's capitalism" has yet to catch on the way it has in Britain, France or the US, where share ownership is wider.

In the Netherlands, it is only beginning to be felt as a tangible force following several big stock flotations.

DSM, the state-owned chemicals company, was partially privatised last January in a highly successful Fl.1.3bn offer that drew a record 100,000 new investors. Flotation of DAF, the private sector truck maker, attracted 250,000 subscribers for shares in an equally successful venture.

Not surprisingly, share ownership among private individuals is spreading. Only 12 per cent of Dutch households owned equity in 1986 but that has jumped to 15 per cent now, according to a survey conducted last spring. The percentage could be even higher now because the survey was done before the DAF deal.

Privatisation of state-owned companies in the Netherlands is still rather limited. One reason is that the pool of enterprises available to sell is small.

The Dutch are too trade-minded to believe the government generally can run companies better than private entrepreneurs. As a result, there is less chance of re-nationalisation.

"People's capitalism" is viewed with some degree of moral distaste. Dutch Calvinism frowns on blatant displays of wealth and greed, so government promotion of this kind of materialism cuts across the national ethic. That is why politicians do not view privatisation as a potential reward for supportive voters.

Company executives, for their part, prefer loyal, veteran stockholders to opportunistic, callow ones. Mr Ad Timmermans, a DSM board member, noted that about 70 per cent of the 100,000 new shareholders have sold since the flotation.

"There will be less attention to the private investor" in the second tranche, he predicted. "If an investor has less than Fl.10,000 then he should put it in an investment fund."

In the DAF deal only 25-30 per cent of the 18m shares went to private investors and many of the subscribers missed out. The rest of the stock went to institutional investors because that is the way DAF wanted it, according to Amsterdam-Rotterdam Bank, the global co-ordinator.

Ironically, privatisation is gathering pace just as Mr Lubbers' centre-right government – whose governing accord encompassed state disposals – has collapsed. That accord promised to raise about Fl2bn during the 1987-90 cabinet period.

Around Fl.1.5bn has been generated by disposals so far and a further Fl.2.8bn or more could come from DSM and NMB/Postbank together. Another one-third of DSM's 35m shares will be spun off in September, putting perhaps Fl.1.8bn in state coffers and leaving one-third in state hands.

The same team of banks, led by Amro as global co-ordinator, will handle the deal and, Mr Timmermans said, as in the first time around institutional investors will be courted during an international road show.

But a pitch to "Jan Modal", the average man in the street, will be made only if the underwriting banks want to do that, Mr Timmermans continued. He expects no stock split in order to trim the rather steep price – around Fl.140.

"Some view people's capitalism with moral distaste"

The Lubbers administration also promised to sell its 53.5 per cent stake in the newly merged NMB Bank, which is 7 per cent owned by the state, and Postbank, which is entirely government-owned. A date has yet to be set because merger plans were delayed by union opposition.

Earlier this month Mr. John Lintjer, the Finance Ministry's director of financing, said The Hague wanted to spin-off its stake "in the near future – it already appears that there is substantial interest in a possible issue of NMB/Postbank shares, domestically, as well as abroad," he added.

Whether a new government will de-rail that plan is unclear. Since privatisation is too minor for the main political agenda it is difficult to fathom what will happen to Lubberian policy.

Of the state's participations in 45 companies, 10 have been targeted for privatisation "in due time".

Besides DSM, NMB and Postbank others include KLM Royal Dutch Airlines, Fokker, the aerospace company, Hoogovens, the steelmaker, and the PTT telecommunications agency.

Laura Raun

Rotterdam Energy Futures Exchange

Little time for lunch at Roefex

IN LONDON, the International Petroleum Exchange recently decided to stay open during lunch hours. In Rotterdam, this decision was seen as a reaction to the imminent birth of the Rotterdam Energy Futures Exchange (Roefex), which will open late in October.

"Trading hours will be 10 am to 6.30 pm, Rotterdam time, which means a few hours overlap with US exchanges. That is the reason why London has been forced to stay open between 12.30 pm and 2.30 pm," said Mr Peter de Jong, project manager of Roefex.

"The Rotterdam oil world has forgotten all its objections and has embraced Roefex," he boasted. Two of the world's leading oil companies, known as the "Seven Sisters," were considering taking off-floor seats, said Mr de Jong,

The Rotterdam oil world has forgotten all its objections and has embraced Roefex

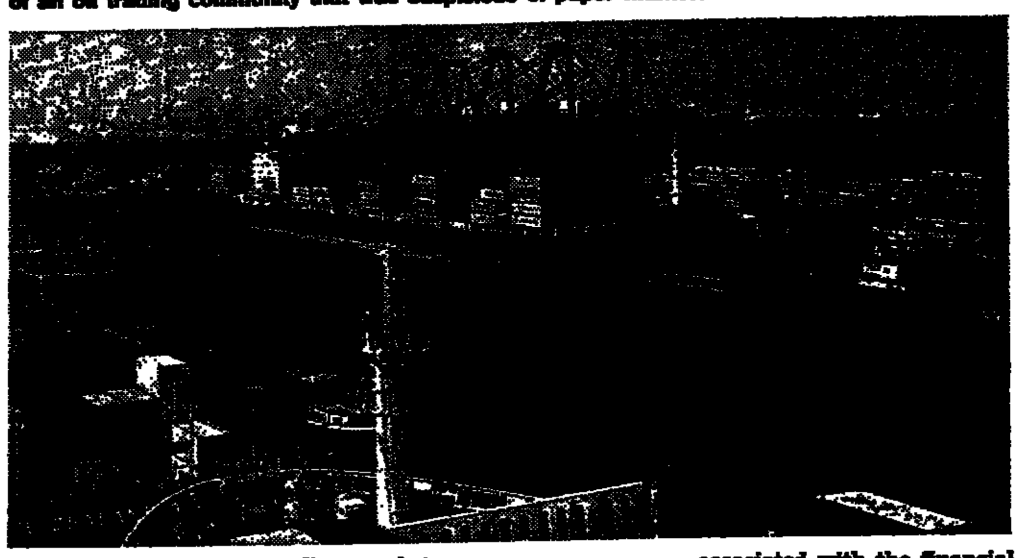
although he refused to give any details.

Mr de Jong worked for the European Options Exchange for four years before joining Roefex as an organising consultant. He is somewhat astonished by the sudden interest in Roefex, especially from abroad. He expected interest from oil traders in Switzerland, Belgium, and West Germany because they are involved in the Rotterdam oil spot market.

"The Americans support Roefex because they are always dreaming about a global market," Mr de Jong said with a smile. When the New York Mercantile Exchange (Nymex) was closed the Wall Street refiners wanted to trade on exchanges abroad, such as London and Singapore. But Singapore would face fresh competition from Tokyo next year and London from Rotterdam later this year.

The Americans thought the city [Rotterdam] was too slow, noted Mr de Jong. One of Mrs Rosemary MacFadden's (president of NYMEX) first questions was: "Are you also closing shop during the lunch hour, 12.30-2.30, like in London?" The lunch-break can be disastrous if a broker has to act immediately for a client.

The tanks and pipelines at Rotterdam (above) and the port (below), the busiest in the world: part of an oil trading community that was suspicious of paper markets.



"Three weeks ago the IPE announced that the lunch-break would be abolished," Mr de Jong continued. "But I hear that although the market is open the floor is empty at that hour; in other words, the shop is open but the personnel is out for lunch."

Several American brokerage firms are opening up in Rotterdam and British brokers are showing interest. "I do not think this is going to be a war between the energy futures markets of London and Rotterdam," observed Mr De Jong. "There is enough room for two markets.

"It was the same with Chicago and New York," he recollected. "Everybody said that we wouldn't need New York between Chicago and London. New York began six years ago with a daily average of 800 contracts. Today, it has 150,000 – the world's largest."

When plans for Roefex were announced last April applicants for a seat had to queue up and the numbers exceeded 160 in early June. It will be housed in Rotterdam's World Trade Center.

Roefex represents a breakthrough in Dutch thinking. Amsterdam has always been associated with the financial world and Rotterdam – the world's busiest port – with business. In Rotterdam there are bourses for grain, insurance and citrus fruit. For more than 25 years there has been the Rotterdam spot oil market, which has no building and no floor.

Platts Oil Gram, which daily publishes the Rotterdam spot prices, serves its customers worldwide by telefax and telex. Every day the editors telephone Rotterdam traders, asking the opening and closing prices for crude oil, fuel oil and gasoline. The editorial integrity guarantees the daily setting of prices in the Rotterdam oil spot market.

Two years ago the Rotterdam spot market turned its back on Mr Tjerk Westerterp, the energetic president of the European Options Exchange, who launched the idea for an oil options exchange. Rotterdam oil traders considered future markets to be a "lunatic park", for speculation.

When he was told that terminals for the new exchange had been ordered, Mr Tom Detiger of Vito – the spot market trader – fired back: "What the hell should we do with video barrels?"

The spot marketeers trade in crude with the whole world. Their objection was that physical delivery for oil on the future markets is non-existent.

"On the IPE in London they are trading without any

The Americans support Roefex because they want a global market

know-how regarding the 'real' market, the physical market," said one trader. "In other words," as he put it, "my dentist sets the oil price."

But the yo-yo game on the international oil markets forced traders to hedge their risks on the London Future Market. The physical and paper contracts complemented each other.

Mr Westerterp is a man who never gives up. Secretly a new plan was set up with the help of Mr Rudolph de Bok, the president of the Rotterdam Chamber of Commerce, with Mr Henk M. Molenaar, the director of the Port Authority, and with spot market trader Mr Jan Onderdijk.

It was to be a futures exchange and to start with a crude oil contract on Brent and a gasoil contract.

Mr Westerterp said proudly when the Roefex was announced last April: "The crude contract offers – for Europe – a unique possibility to deliver in tank transfer. In addition to Brent several other grades can be delivered."

Every contract will cover 1,000 US barrels. The gasoil contract will be based on a typical contract for a Rhine barge.

Friso Endt

Corporate sponsorship of the arts

Worthy contribution

WHEN a quartet of companies recently announced it would sponsor the Royal Concertgebouw Orchestra to the tune of Fl1.75mn, it was music to the symphony orchestra's ears.

Never before has Dutch business promised to provide an arts subsidy of such permanence – in this case for the 1989-90 season. In the past companies have usually donated money for a given exhibit or event.

The debut of structural sponsorship reflects the explosion in corporate support for the arts. Mr Titus Yocarini, of the Arts and Business Foundation, estimated that corporate sponsorship has surged from less than Fl1m annually in 1981 to more than Fl25m a year now.

A magazine called "Sponsoring" was launched recently amid growing awareness of the role of philanthropy in public relations.

"It is soft-sell corporate communications, an interesting way to meet business partners," explained Mr Yocarini. The Arts and Business Foundation was established 35 years ago by leading Dutch companies such as Philips to advise them – and the government – on acquiring and commissioning art.

The explosion in corporate sponsorship of the arts, however, has raised vexing questions. Can the arts world allow itself to become reliant on the business community? Does corporate sponsorship mean only lowest common denominator art and "megaprojects" guaranteed to pull in mass audiences will flourish? Will artists' independence be jeopardised?

The Netherlands still lags behind many European countries and the US in corporate sponsorship. Captains of industry abroad have viewed support for culture as a subtle tool for shaping corporate image, impressing clients and raising the corporate profile.

But most Dutch industrialists have begun only recently to think seriously about their companies' public image. In the financial community Amsterdam-Rotterdam Bank is among the avant-garde.

"The projection of image and the degree to which this image conforms to the client's lifestyle have a great influence on the choice of a bank and customer trust after a certain bank has been chosen," explained Mr M.J. Drabbe, a member of Amro's management board, during a recent banking seminar.

Furthermore, the arts community has received rather generous support from the Dutch Government. In an effort to achieve a "vertical spread of culture" the state has been almost the sole patron of the arts.

Artists do not have to starve to be artistic, it was argued, so lavish subsidies were doled out to aspiring painters, for example. But their works began to fill government building basements instead of museums and the scheme has been trimmed.

Yet corporate sponsorship of the arts can trace its roots back to the Netherlands' Golden 17th Century when rich merchants commissioned portraits from Rembrandt, among others. Churches received generous donations from wealthy burgers who wanted big, ornate tombstones.

The debut of structural sponsorship reflects the explosion in corporate support for the arts

But after the Second World War Dutch society insisted on a more egalitarian system for financing the arts. By the 1960s the state was considered the guarantor of social welfare and that included culture.

By the same token capitalism fell into disrepute and profit was a dirty word. Businessmen would have been reviled had they tried to pay for artistic endeavours.

Not until the 1980s have companies even begun to contemplate a role in the arts world. "Dutch companies failed to use the arts to help reverse the image of dirty capitalists," lamented Mr Yocarini. "This is not a cultural country but a trade country."

The Christian Democrat-Liberal Government, which collapsed last May, scaled back its role in the arts. Spending levels were frozen and subsidy schemes have been revamped to promote quality instead of social welfare. If a centre-left coalition emerges from the September elections then state spending could rise again. But corporate sponsorship seems likely to grow regardless.

NMB Bank was one of the quartet of companies donating money to the Royal Concertgebouw Orchestra. The others were Postbank, which is merging with NMB, DAF and Douwe Egberts.

Their Fl1.75m contribution will be used to add five musicians, bring international directors to Amsterdam and perform more often abroad. In return the sponsors can advertise their names, have guaranteed seats and organise exclusive concerts.

"With an eye on its increasingly international activities NMB will gladly associate with the orchestra during its appearances abroad," the bank explained.

This past spring Amro sponsored an impressive retrospective of Malevich for [illegible]. The exhibition was a brilliant collection of works by one of Russia's greatest 20th Century artists, and included some hidden for 60 years.

"Malevich wouldn't have been possible only a few years ago," contended Mr Yocarini. "By Dutch standards it was big."

Nevertheless he was worried about the arts community becoming too dependent on corporate sponsorship. Those who giveth can also taketh away, Mr Yocarini noted, citing an example of a Washington DC museum whose future was jeopardised by the loss of a large funding source.

Cultural institutions, like all others, must plan ahead and security of income is vital.

Another risk is that only mainstream works will be financed and controversial art will be left to the vagaries of the state. Corporate sponsors generally stick to mass appeal events for want of wide exposure and to avoid offending the public.

In the past, culture ministers insisted that only the state could ensure artists' freedom of expression, Mr Yocarini remembered. Private sponsors could dictate terms, ministers worried.

But some of the world's greatest art was commissioned under strict conditions. Haydn was servile to Count Esterhazy and listen to the results.

Laura Raun

INSIDE

No thugs required at NTT's meeting

The corporate thugs hired to ask awkward questions at Japanese shareholders' meetings were not required yesterday at the annual gathering of Nippon Telegraph and Telephone, the country's largest company. In the past year, NTT's problems have been all too obvious – its former chairman and two other executives were arrested, the stock price has plunged by more than a third, and profits fell by 14.3 per cent. The front rows of the meeting were packed with NTT employees ready to clap on cue, but there was no avoiding an uncomfortable time for the beleaguered board, reports Robert Thomson. Page 25

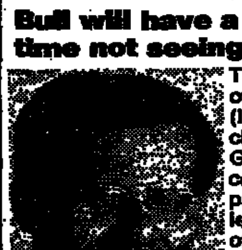
The mystery of the jilted grocer

There are many unanswered questions surrounding the abortive bid two months ago for British supermarkets group Budgens from fellow food retailer William Low, and yesterday's results from Budgens can only compound the puzzle. Silence surrounds a lengthy Takeover Panel investigation into the affair. Page 28

The tortoises and the hares

Most of the world's equity markets have clambered back to the levels they had reached just before the global crash, and a fair number of them, from Japan to France and Austria, are now well above their all-time highs. But a significant minority, including New Zealand, Hong Kong and South Africa, have a long climb ahead of them, even to recover the ground lost in October 1987. Page 48

Bull will have a hard time not seeing red



This week's appointment of Mr Francis Lorentz (left) as chairman and chief executive officer of Groupe Bull, the state-controlled French computer manufacturer, was less of a shock than that of his predecessor, Mr Jacques Stern in 1982. But what has not changed is the fragility of the company's financial position. After a comparatively sound 1988, Mr Lorentz has had to admit that the group will miss its revenue target in 1989 and be hard pressed to make a profit. Page 23

Let's all do the monster mash

Peru, the ancestral home of the potato, is maintaining its close involvement with the developed world's favourite vegetable. In a suburb of Lima the International Potato Centre, founded in 1971, has gathered together scientists from 22 countries to continue work on producing improved varieties, tackling disease problems and expanding the growing range of the potato. Page 36

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Deutsche B'cock	214	+	4.5
Deutsche Bank	601.5	+	13.5
Volkswagen	492.5	+	6
Falls			
Continental	317	–	2.7
RWE	330.5	–	4.4
Thyssen	247.5	–	4

NEW YORK ($)			
Rises			
Banc One	33½	+	5½
Falls			
Amdahl	16⅝	–	3½
Coca-Cola	57⅝	–	⅝
IBM	112⅝	–	1⅝
Paramount	61¾	–	1⅛
Time Inc	155½	–	1¾

PARIS (FFr)			
Rises			
Esso	539	+	18.5
Locabail	708	+	25.9
Falls			
Alcatel	2925	–	130
Com Ent	222.1	–	15.3
Metrologie	282	–	11.6
Strafor DS	42.8	–	6.2

TOKYO (Yen)			
Rises			
Daini Telecom	1480	+	200
Fujitsu Bus.	5730	+	530
Konami Inds	3650	+	450
NEC Sys Int	3360	+	400
Sega Ents	4100	+	450
Falls			
Koito Mfg	4020	–	280

New York prices at 12.30

LONDON (Pence)			
Rises			
Acatos & Hutch	223	+	8
Aerospace Eng	93	+	7
BPB	238	+	7
Caffyns	600	+	42
Cairn Energy	255	+	22
Caledonia Inv	372	+	9
Gates (FB)	208	+	26
Hardy Oil & Gas	143	+	8
Utd Biscuits	374	+	8
Falls			
Avesco	145	–	5
Barclays	453	–	9
Barker (C)	108	–	5
Boots	283	–	7
Craton Lodge	55	–	11
Dowty	269½	–	8
Glaxo	1386	–	33
Hammerson 'A'	794	–	10
ICI	1279	–	39
Lucas	647	–	13
Next	133	–	5
Ratners	243	–	11
Royal Ins	393	–	10
600 Gp	138	–	5
TSB	103½	–	6½

Pickens is rebuffed at Koito meeting

By Stefan Wagstyl in Tokyo

MR T BOONE PICKENS, the Texan corporate raider, yesterday took a walk on the wild side of Japanese company life.

Attending the annual general meeting of Koito Manufacturing, the group where he has taken a $1bn-plus stake, Mr Pickens encountered the *sokaiya*, the feared racketeers who are as much a tradition of Japanese corporate life as auditors and tax returns.

They try to extract bribes from companies by threatening to disrupt meetings. Companies which do not pay have to suffer interminable questions. Koito got off lightly yesterday and finished its meeting in three and a half hours. A meeting at Sony once lasted over 13 hours.

Mr Pickens attended yesterday's meeting in a Tokyo hotel to press his case for three seats on the company board. He came away empty-handed, his request for boardroom representation turned down.

The sole foreigner in a hall full of hundreds of Japanese shareholders, he was given every opportunity to put his case by the courteous Mr Takao Matsuura, president of Koito. The *sokaiya* stayed silent throughout his speech. Then about five *sokaiya* dressed in dark suits weighed in with long speeches of their own, mostly supporting Mr Pickens and berating the company about everything from tax allowances to US-Japan relations.

Afterwards, the veteran of several spectacular US corporate fights and countless US company meetings, said it had been "the most unusual shareholders' meeting I have ever been to in my life."

He said he had expected to lose yesterday's vote, but vowed to be back – possibly as soon as September, when he will be eligible, to call a special shareholders' meeting.

Mr Pickens' involvement with Koito began in March, when Boone Co, his private investment company, bought a 20.2 per cent stake from Mr Kitaro Watanabe, a Japanese corporate raider.

Mr Watanabe had previously tried unsuccessfully to "greenmail" Koito – in other words, get it to buy back his shares at inflated prices – and also Toyota Motor, Koito's biggest customer and a 19 per cent shareholder.

Mr Matsuura opened the meeting with a long reading of the company's report, followed by an even longer reading of answers to written questions submitted by shareholders, mostly by Mr Pickens, who asked about everything from Koito's relations with Toyota to depreciation calculations.

Then it was Mr Pickens' turn to speak. With the help of a male interpreter, Mr Pickens put his case. He pulled no punches, blaming Koito's refusal to grant his board seats on the fact that he is a foreigner.

Koito answered, as it has before, that it would not listen to Mr Pickens until he explains the exact nature of his relationship with Mr Watanabe. It is widely suspected that the shares sold by Mr Pickens to Mr Watanabe are covered by a repurchase agreement.

SBC to retreat from London

By Stephen Fidler in London

SWISS Bank Corporation, the second largest Swiss bank, announced yesterday it would redirect its international investment banking operations after two years of large losses, and would change the focus of its domestic investment banking business.

The change in strategy involves a partial retreat from the UK equity market, in which all three big Swiss banks have had difficulties, and a big reduction in the number of stocks in which it will make a market. It also calls for a redirection of its investment banking operations towards corporate finance and away from traditional commission-earning activities.

One of the many foreign banks that piled into London to take a position in securities markets ahead of Big Bang in October 1986, Swiss Bank said yesterday that the financial services industry, particularly in London, had changed faster than it and many others had foreseen.

This had severely restricted the ability to earn commissions through traditional stock broking and bond market activities.

SBC London, which has swallowed the UK stockbroker Savory Milln, will now make a market in only 50 stocks in areas in which it has long-standing expertise, down from 300. Ninety jobs will go. The UK market will no longer be emphasised above other European markets.

While supervision of international capital market businesses will continue to be in London, more emphasis will be laid on local offices in the distribution and trading of debt and equity. Thus trading of Dutch and German bonds and equities will be moved to their home countries.

The bank will also lay more emphasis on corporate finance, creating new operations in Italy and Spain. Investment companies to hold equity stakes would also be established in the UK and other countries. Business in cross-border mergers and acquisitions would be built up from strengths in local markets.

The bank said the domestic investment banking market was also under pressure. Fixed commissions in bond underwriting were under attack, both from the interest rate and currency swap markets and increasing competition. Brokerage commissions were being affected by the increased muscle of institutional investors and the review of commission structures by the Swiss cartel commission.

SBC retreats, page 27

San Paolo does the Wall Street shuffle

David Lascelles and John Wyles report on yesterday's transatlantic banking tie-up

The co-operation agreement announced yesterday by San Paolo Bank and Salomon is unusual in many respects – not least because it marks the first time that the fiercely independent Wall Street investment bank has agreed to a bank buying a sizeable interest in its stock.

But it will be widely seen as indicative of trends in Europe as financial institutions jockey for place in the planned European single market. Mr John Gutfreund, Salomon's chairman, was in no doubt yesterday about the reason. "The European market is big, broad and complex. But it also offers big opportunities," he said.

Similarly, Mr Gianni Zandano, San Paolo's president, said of his bank's goals in the US: "An alliance with one of the most important American investment banks fulfils the need to improve the presence of the bank in a very dynamic and competitive market."

The agreement is fairly wide-ranging: it covers the areas of securities distribution, asset securitisation (particularly mortgages, where Salomon is strong) and corporate finance with an emphasis on cross-border mergers and acquisitions. It will be underpinned by mutual cross shareholdings, with San Paolo buying 5 per cent of Salomon, and Salomon buying shares in San Paolo when it obtains a listing.

For Salomon, the arrangement gives it an ally in one of the top banks in Italy, a country where banks also dominate the securities business. Although Salomon has traditionally built up its foreign operations from scratch, notably in the UK and Japan, this deal enables it to get a head start "in market where we are less well-known," according to Mr Gutfreund.

What is questionable, is just how much business Salomon will get out of Italy. Italian clients are little known and traded in the US market, and the Italian domestic securities business is one of the more backward among Europe's larger countries.

But Mr Gutfreund sees a virtue in this. He talks of Italian securities being "underdeveloped", and Italy being "underweighted" in international stock portfolios, the implication being that there is plenty of room for growth.

And it is certainly true that Italy's relatively unadvanced financial structure is perceived in international financial circles as a plus – as a sign that foreign enterprise can bring know-how and acquire market share more quickly than in countries like Germany where the business is sewn up by the big banks.

For San Paolo, the tie-up is the latest deal in a L450bn ($315m) spending spree over the last four years to establish an international presence by a bank which, like most in Italy, needs to be in a hurry because it started so far behind its UK and German counterparts.

It began the decade as a public-sector, largely regional bank with 346 branches, mostly in northern Italy, and a capital of L787.8bn yielding net profits of L13.6bn. By the end of last year, the group's net capital had risen to L4,220bn and it had earned L580bn in net profits from commercial and investment banking, insurance and a growing range of financial services. Its tally of branches had climbed to 700 in Italy supported by a string of overseas subsidiaries.

Mr Zandano jubilantly agreed yesterday that the deal offers a vital North American leg to his bank's growing body of international investment banking alliances. The first was in 1986 with 6.44 per cent (recently increased to 11 per cent) of Hambros, the UK merchant bank, and the second followed in October 1987 with a 1.1 per cent stake in the French banking group, Compagnie Financière de Suez. Mr Zandano acknowledges that a Japanese tie-up would complete the global scheme.

John Gutfreund: 'Big, broad and complex' European market offers 'big opportunities'

A further alliance came in March with an agreement with the UK's Guardian Royal Exchange to buy three Italian insurers and to manage them jointly. As a result, San Paolo is the first Italian bank to buy into the insurance industry.

Mr Zandano defines his strategy in terms of "providing new products and services for Italian companies and families," and sees Salomon's enormous placing powers in corporate finance as now offering San Paolo crucial competitive advantages.

Moreover, Salomon's new European partner is about to acquire considerably greater strength in Italy following a recent L1,300bn agreement which will give San Paolo close to 50 per cent of Crediop, the Rome-based corporate finance and investment banking concern. The result will be Italy's first diversified banking group controlling assets of close to L100,000bn and challenging Banca Nazionale del Lavoro for the top position in Italian banking.

San Paolo is controlled by the Italian Treasury and the Bank of Italy and is a special kind of Italian trust without any shareholders. Once a new banking law is passed, the Turin bank plans to issue equity, having been forced to postpone a $500m sale in mid-1987.

More widely, the San Paolo-Salomon tie-up is also indicative of a growing trend of investment by foreign institutions in Wall Street, particularly Japanese institutions. Mr Gutfreund said Salomon had deliberated long and hard before accepting the deal, but it was prompted by a belief "that we did not have the capacity to be all things to all people all the time." He also thought it highlighted the trend towards universal banking as deregulation brings commercial and investment banking closer together.

Banc One wins battle for MCorp

By Anatole Kaletsky in New York

BANC ONE, the rapidly growing regional bank group based in Columbus, Ohio, has won the contest to take over most of MCorp, the troubled Dallas holding company which was the last independent bank group left in Texas.

The Banc One bid prevailed over proposals from many other financial institutions such as Chemical Banking, NCNB, Kohlberg Kravis Roberts and Mr Robert Abboud's First City Bancorp of Houston.

Announcing the selection of Banc One as the winner, Mr William Seidman, chairman of the Federal Deposit Insurance Corporation, said in Washington yesterday that his government-backed agency would lose at least $2bn on the MCorp transaction.

This FDIC contribution would make MCorp the third most expensive bank rescue in US history, after the bail-outs of Continental Illinois in 1984 and First RepublicBank during last year.

The details of the deal were sketchy. Analysts speculated that the Banc One offer may not have been the most attractive financially for the FDIC.

Banc One, which will be paying about $412m in cash to acquire control of the 20 failed banks which formerly belonged to MCorp, has no banking businesses in Texas, while most of the other bidders have extensive networks in the state.

Therefore they would have been able to gain operating economies by buying the MCorp banks and eliminating overlaps. So the FDIC probably selected the Banc One bid not purely on financial grounds, but also because of political concerns.

The FDIC may have been sensitive to concerns within Texas about the monopolisation of its banking markets by a small number of out-of-state groups.

Also, the agency has been criticised in Congress for giving excessively generous terms to NCNB, which rescued First RepublicBank last year, and the private investor group which took control of First City. Hence it might have been difficult for the FDIC to award another huge Texas franchise to either group.

Investors in Banc One concluded that the deal was outstandingly attractive to them. The company's shares shot up by $5¼ to $33¼, making it the day's most actively traded issue.

The jump in the share price added to Banc One's distinction as one of the highest-rated banks in America from the stock market's standpoint. While Banc One's total assets of $25bn before the MCorp deal make it the US's 25th biggest bank, its stock market capitalisation of $4.3bn puts it among America's top five or six banks in terms of market value.

TSB profits fall depresses shares

By David Barchard in London

THE SHARE price of TSB, the sixth largest UK banking group, fell sharply yesterday after news of a steep drop in pre-tax profits during the half-year ended in April.

Half-year profits for the group before tax were £164.5m ($256.3m), 22.4 per cent down on last year.

The results dashed any remaining hopes among investors of a quick return to form by TSB, which was floated on the Stock Exchange amid high expectations in the autumn of 1986 but has since proved a disappointment.

Though the London stock market had steeled itself to expect a drop in TSB's half-year profits to around £180m, after a warning three months ago by Sir Nicholas Goodison, chairman, the results were bleaker than forecast.

TSB shares lost 6.5p during the day and closed at 103.5p, only slightly above the flotation price.

Each of TSB's four main areas of activity – banking, related services such as loans and credit cards, insurance and investment services, and commercial activities – reported profits lower than last year.

The fall was sharpest in banking, where profits were £18m lower than last year at £110m. This was in spite of an improved performance by Hill Samuel, the merchant bank which TSB bought in 1987 and has since become its corporate lending arm.

Meanwhile, TSB's operating costs have soared to 75 per cent of its income, a level unknown among the large banks where costs are normally around 65 per cent of income. The figure was immediately branded as unacceptable by Mr Don McCrickard, chief executive, who pledged to make efforts to bring it down.

Sir Nicholas Goodison, who became chairman in January, made no attempt to conceal his disappointment at the results. "These are poor figures. The group, with its huge potential, has not performed and is not performing as well as it should. Our shareholders have every right to expect better results."

He warned, however, that these would not be easy to achieve in a retail banking market where the good times, which saw rising house prices and a buoyant mortgage market, were over.

He identified several causes for TSB's poor showing, including the squeeze on the bank's margins on lending since interest rates began to climb a year ago towards their present levels. The mortgage market has been particularly affected.

Lex, Page 20; Details, Page 29; London stocks, Page 37

INTERNATIONAL COMPANIES AND FINANCE

Drexel steps in to rescue Integrated Resources

By James Buchan in New York

DREXEL Burnham Lambert, the Wall Street investment bank which financed the heady growth of Integrated Resources, has stepped in to rescue the collapsing financial services group with a cash injection of $300m and a complex scheme to satisfy its creditors.

The plan, which was announced yesterday, goes some way to restoring the face lost by Drexel Burnham when Integrated Resources, a once high-flying syndicator of real-estate partnerships, defaulted on $955m in loans and IOUs 10 days ago.

But some analysts fear that holders of more than $600m in junk bonds may object that they are getting a poor deal.

Integrated Resources, which collapsed when it found it could not finance a book of long-lived financial planning products in short-term markets, yesterday said Drexel Burnham will raise $300m in new money to pay off about a third of its bank debt, commercial paper and senior debt.

Drexel Burnham says that it will itself buy $100m in new mortgage securities, called reset notes, and is highly confident it can place the remaining $200m. For the remaining senior debt, lenders will receive interest-bearing secured notes.

But holders of the $832.4m in junk bonds will receive securities only up to 70 per cent of the face value of their holdings. The new securities will be common stock and a junk bond that pays no interest in cash for three years.

Analysts say these junk-bond holders, who were assembled by Mr Michael Milken, Drexel Burnham's master financier, may be "loyal" to the firm and vote for the deal which needs their 90 per cent support.

But some may prefer to take their chance of a better pay-off from the bankruptcy court.

Drexel Burnham, which beat out a rival plan from Goldman Sachs, is the acknowledged Wall Street master of such exchange offers.

But competitors point out cattily that Mr Milken, who was forced out of Drexel Burnham as part of a deal to save the firm from prosecution, used to arrange exchange offers before rather than after default.

Autolatina to invest DM4bn

By Kevin Done, Motor Industry Correspondent

AUTOLATINA, the joint venture company set up by Volkswagen of West Germany and Ford of the US in 1987 to combine their South American automotive operations, is to invest around DM4bn ($2bn) in the five years from 1989 to 1993.

In one of the first steps in the investment programme Autolatina is to build a DM400m plant to produce transmissions for front-wheel drive vehicles in Cordoba, Argentina.

The plant, which will create around 700 jobs, is scheduled to begin operations in early 1992. It will have a capacity to produce 1,300 transmissions a day, or 300,000 a year on a three shift per day system.

The transmissions, which are being developed by VW, will be used in Volkswagen and Ford cars produced in Brazil and Argentina.

VW said the plant would improve Autolatina's exchange of mechanical assemblies and components and allow higher production volumes through the joint use of the plant for VW and Ford vehicles.

Autolatina, owned 51 per cent by VW and 49 per cent by Ford, is one of the largest joint venture companies in the world automobile industry. The merger in July 1987 followed years of heavy losses in South America by the two companies, but Autolatina began to trade profitably last year.

Mr Günter Hartwich, VW's management board member responsible for production and chairman of the Autolatina advisory board, said the company's cost structures had been significantly improved.

The merger had enabled VW and Ford to boost productivity, cut fixed costs and reduce the amount of capital tied-up in the previously separate South American operations.

Autolatina achieved a net profit last year of DM447m on a turnover of DM8.2bn, compared with a loss on a comparable basis of DM331m in 1987, said Volkswagen.

Autolatina's return to profit largely stemmed from its victory in the protracted fight with the Brazilian Government over the right to set its own prices for cars and trucks. In March 1988 the Government lifted its highly restrictive price policy and made it possible to pass on inflation-related cost increases in higher retail prices.

It was also helped by the revival in car demand in Brazil last year. The group's sales rose by 15.1 per cent to 572,044, of which 374,799 were Volkswagen Group vehicles and 197,245 were Ford models, while production increased by 15.8 per cent to 575,113.

Autolatina produced 546,000 vehicles in Brazil in 1988 – 370,000 VWs and 176,000 Fords – of which 122,000 were exported, a drop of 17.7 per cent. Sales in Argentina fell by 12.5 per cent to 46,194.

The Autolatina product range, which is still sold through separate VW and Ford dealer networks, dominates the Brazilian market. VW captured 39.2 per cent of the car market last year – a big recovery from 35.1 per cent in 1987 – and Ford 20.8 per cent.

The two marques combined hold 59.6 per cent of the light commercial vehicle market and 35.4 per cent of the truck market. In Argentina Ford holds 14.3 per cent of the total vehicle market and VW 11.5 per cent

SEC files fraud suits against Bilzerian

By Roderick Oram in New York

THE Securities and Exchange Commission filed securities fraud suits yesterday against Mr Paul Bilzerian, a corporate raider recently found guilty on similar criminal charges, and Mr Edward DeBartolo, a billionaire developer of shopping malls.

Mr DeBartolo agreed to settle the charges without admitting or denying he broke securities laws when he helped finance some of Mr Bilzerian's raids. He will hand over to the government more than $2.7m of profits from the raids. Two of Mr DeBartolo's senior executives were also charged.

Mr DeBartolo, aged about 80 and a resident of Youngstown, the depressed Ohio steel town, had also played a crucial role in helping finance the $3.6bn purchase of Allied Stores by Mr Robert Campeau, the Canadian investor.

Mr Bilzerian has not yet settled with the SEC which is seeking to recover from him $31.3m in allegedly illegal profits. He is planning to appeal against his recent conviction on nine criminal charges which carry a maximum of 45 years in jail and $2.25m in fines. It was the first jury conviction on information from Mr Ivan Boesky, the takeover specialist who admitted to wide ranging breaches of securities laws.

Many of the charges brought by the SEC involve Mr Bilzerian's attempts to conceal financial support from Mr DeBartolo as his own funds. According to extensive US reports, Mr DeBartolo one of the wealthiest real estate developers in the country, exacted extremely generous terms from Mr Bilzerian.

The civil charges go further than the earlier criminal ones, however, by including Singer, the defence electronics company Mr Bilzerian acquired for $1.66bn in 1987. He has since sold off most of the famous company but the disposals have generated law suits seeking hundreds of millions of dollars in damages.

US semiconductor sector growth slows

By Louise Kehoe in San Francisco

THE US semiconductor market appears to be heading into a period of slower growth, a "summer slump" that may be a signal of a longer term trend affecting a broad range of electronics manufacturers, according to industry analysts.

The latest sign of the long-anticipated semiconductor downturn came from LSI Logic, a leader in the field of application specific integrated circuits (Asics), customised semiconductor devices.

The company said this week it expected second quarter earnings to decline from first quarter levels and fall short of recent expectations.

Several US computer manufacturers have asked the chip maker to delay delivery of components, it said. Order rates have also slowed, suggesting that business will be flat over the next few months.

The theme is common throughout the US semiconductor industry, say analysts. Mr Drew Peck of Donaldson Lufkin & Jenrette in New York, says: "The market is sluggish. Computer manufacturers are afraid of the general economic outlook, so they are holding back orders for semiconductor components.

"It is a buyers market for semiconductors. The chip makers have excess production capacity and sluggish demand is creating pressure on prices," he adds. Yet it is becoming increasingly difficult for semiconductor manufacturers, and those who follow the industry, to forecast market trends.

Mr George Wells, company president, said LSI Logic "has adopted a cautious business outlook due to the lack of long-term visibility in the marketplace," echoing recent statements from other US semiconductor executives.

Computer companies are placing short term orders to meet immediate needs , rather than planning ahead with longer range orders. This is partly due to nervousness about the economic outlook and also because US equipment manufacturers are adopting the "just-in-time" approach to inventory control.

Fueling concerns about the outlook for the computer and semiconductor markets are reports from Amdahl, the mainframe computer manufacturer. Yesterday it said it expected an earnings decline in the current quarter.

In addition Commodore International, the personal computer manufacturer, said its results for the current quarter could range from "a modest profit to a modest loss".

Stock prices on a broad range of semiconductor and computer companies fell sharply on Wednesday as analysts cut their earnings estimates in anticipation of slower sales growth. Apple Computer, for instance fell $1% to $41¾.

Analysts differ over whether the current sluggish market is little more than the traditional seasonal slowdown in the summer months, or whether it signals a significant trend toward slower growth that could last through 1990.

The personal computer business is "clearly slowing," said Mr Richard Whittington of Kidder Peabody. The decline is more than just a "normal seasonal slowdown," he maintains. Others say, however, that demand for personal computers remains strong and sales will pick up toward the end of the year.

The uncertain outlook for computer sales makes it especially difficult to forecast trends in the semiconductor market. Mr Millard Phelps of Hambrecht & Quist in San Francisco, says: "We will not really know until September." He predicted that semiconductor order rates should pick up after the summer to produce annual market growth of about 10 per cent for the year and about the same in 1990.

Others are less optimistic. There is a growing consensus that the semiconductor market is becoming less volatile and that the industry will make a "soft landing" rather than plunging into a dramatic recession as it has in the past.

Exxon wins go-ahead for merger

By David Owen in Toronto

AFTER MONTHS of deliberation, the Canadian Bureau of Competition Policy has agreed to permit Imperial Oil, Exxon's Canadian subsidiary, to proceed with its US$4.15bn takeover of Texaco Canada.

The bureau has imposed several conditions on the deal which will force Imperial, already the largest Canadian-based energy company, to spin off a sizeable chunk of downstream assets.

Under the terms of the agreement, Imperial will sell as an ongoing entity virtually all of Texaco's downstream business in Atlantic Canada, including the Eastern Passage refinery, together with a clutch of service stations and distribution terminals across the country.

In all, 543 service stations will be put on the block. Imperial has also undertaken to continue to provide agreed volumes of petrol to independent marketers in Ontario and Quebec for at least seven years.

In return for these commitments, Imperial will be allowed to retain ownership of the former Texaco refinery in Nanticoke. This 95,000 barrels per day (bpd) plant is seen as the crown jewel of Texaco's assets, due to its strategic location next to the lucrative Toronto market, and to its capacity to produce unleaded fuel.

Imperial already owns a 123,000 bpd refinery at Sarnia, Ontario. There had been considerable doubt as to whether the company would be permitted to keep both plants.

After the merger, Imperial will control 30 per cent of refining capacity in Ontario and Quebec. It will also boast reserves totalling 2.3bn barrels of crude oil and 5.4 trillion cu ft of natural gas.

● Edper Enterprises, part of the Bronfman family of Canada's empire, has raised C$110m through the sale of 4m subordinated voting shares.

General Mills sees record 1990 earnings

GENERAL MILLS, a leading US restaurant and foods group, which reported record results for fiscal 1989, is bullish about the current year.

The group, which has been boosted in recent years by the divestiture of low growth business, said it expected to report record sales, earnings and earnings per share in 1990.

In the year to May 28 the compan lifted net operating earnings to $315.3m or $3.85 a share on sales of $5.62bn, compared with $282.2m or $3.24 last year on sales of $4.98bn.

Havas launches $237m rights with warrants

George Graham in Paris

HAVAS, the French advertising and media group, has launched a FFr1.58bn ($237m) rights issue, with attached warrants allowing it to raise up to FFr1.74bn more over the next three years.

The group, privatised two years ago, said the capital increase would allow it to pursue a rapid expansion in its main areas of activity, both in France and overseas.

Havas has a low debt level, but it has made FFr1.9bn of financial investments over the last three years, including stakes in Mills and Allen, the UK poster group, and in Europoster, a joint venture with Mills, as well as the purchase of the Republicain de l'Essonne regional newspaper group.

The one-for-eight rights issue will involve the issue of 1.58m new shares, each with one warrant attached, at a price of FFr1,000. The warrants may be exercised up to July 15, 1992, at a price of FFr1,100.

The offering will be reserved to existing shareholders up to July 17, and then opened to the public.

Générale share issue allocation sparks argument

By Tim Dickson in Brussels

AN UNSEEMLY squabble erupted in Brussels yesterday over the allocation of 5m new shares in Société Générale de Belgique, threatening to tarnish the now highly polished image of Belgium's biggest and most celebrated holding company.

In what was seen as a highly unusual public outbreak of hostilities within the generally even-tempered Belgian financial establishment, Mr Jean Peterbroeck, chairman of the Brussels Stock Exchange, announced that he had asked the Exchange's quotations committee to suspend La Générale shares from next Monday pending a "favourable response" to his complaints about the method used to allocate them.

The move follows this week's *successful offer for sale of an* 11 per cent stake in the company previously owned by the Franco-Belgian consortium which defeated Mr Carlo De Benedetti in last year's takeover struggle. The offer was three times oversubscribed by international and Belgian investors.

In an open letter to Mr Paul-Emmanuel Janssen, chairman of Société Générale de Banque, the lead bank to the issue, Mr Peterbroeck complained that stockbrokers had suffered from "highly inequitable treatment" in the way the 5m shares made available to the Belgian market had been divided up.

"The information which has appeared in the press suggests that you gave preferential treatment to clients of Générale de Banque and that you are not taking into account applications from clients addressed to other financial intermediaries."

Mr Peterbroeck's outburst betrays the underlying tensions between banks and brokers in Belgium and ironically comes when Government ministers are urging the banks to work together to promote Brussels as an attractive European financial centre.

Last night Mr Janssen was unrepentant and explained that the underwriters – "the *people who believed in the success of the issue*" – had been rewarded for their loyalty.

Due to lack of support from other institutions, Générale de Banque had reluctantly agreed to underwrite 53 per cent of the issue – hence it had been able to satisfy its clients to the tune of 25 to 75 per cent of the amount of shares for which they had applied. Non-underwriting institutions had got roughly 25 per cent of what they asked for, Mr Janssen said.

Brother profits fall 37%

PRE-TAX profits of Brother Industries tumbled 37 per cent, to Y2.4bn ($16m), in the first six months ended May 31, after falls in exports of consumer electronics and information equipment, writes Yuriko Mita in Tokyo.

Brother, the largest Japanese manufacturer of sewing machines, knitting machines and typewriters, has been expanding into software-oriented merchandise to boost profits. However, the company reported a drop in sales of 7.1 per cent to Y76.8bn.

Sewing machine sales rose 0.4 per cent, thanks to strong demand for industrial machines. However, sales of consumer electronics and information equipment declined 36.5 per cent and 12.2 per cent respectively. For the second half of the fiscal year, Brother has reported it will step up development of new products and exploration of new business areas.

Brother's recurring profit for the fiscal year is projected to go down 21.2 per cent to Y5bn.

Earlier this year, Brother was involved in an anti-dumping dispute with the European Community over shipments of computer printers.

Abbey sees share offer 1½ times subscribed

By Clare Pearson in London

THE £975m ($1,516m) offer of shares in Abbey National's £1.7bn stock market flotation finally closed yesterday morning. The UK building society was believed to be confident that the 750m shares had been at least 1½ times oversubscribed.

Counting of last minute applications continued, while efforts were also being made to process the several thousand postal applications that had been prevented from reaching the receiving centres by yesterday's 10am deadline because of Wednesday's rail strike.

Lloyds, the receiving bank, is expected to carry on trying to identify these applications until late this afternoon.

The applicant for a small number of shares is likely to be strongly favoured when Abbey directors sit down with their financial advisers tomorrow morning to determine how the scaling down will work. Details of the basis of allocation, together with the precise level of subscription, will be announced in Monday's press. Share certificates will be sent out to members from July 10, ahead of first dealings on July 12.

The offer was made to 5.6m qualifying Abbey savers and borrowers, who will also receive free shares in the flotation, which marks the final stage of Abbey's six-month conversion into a public company.

CCF to sell Italian branches

CREDIT Commercial de France (CCF), the privatised French bank, has reached agreement with two Italian banks on a restructuring of its European network, writes George Graham.

The French bank will sell three of its Italian branches to Banca Antoniana, a savings bank based in Padua and one of the founder members of the Arca Nordest banking network.

Gardini stirs doubts over Enimont tie-up

By John Wyles in Rome

MR Raul Gardini, president of the Ferruzzi group, appeared to raise a serious doubt last night over the future of the Enimont chemicals joint venture in Italy by calling a meeting today of the Montedison board "to clarify the situation."

In Ravenna yesterday the Ferruzzi chief complained about the hostile political reaction to his statement last week that he wanted to acquire majority control of Enimont in three years by merging Montedison's speciality chemical interests into the basic chemicals venture.

Enimont is 50-50 owned by Montedison and Eni, the Italian state holding group. Mr Gardini's unexpected declaration reminded members of the same Government which had approved the joint venture that the agreement could transform the state into a minority owner in 1992.

Under the agreement, the transfer of Montedison's basic chemicals business is supposed to be legally completed by midnight tonight. As the controlling owner of Montedison, Mr Gardini could sink the agreement at today's board meeting.

The Ferruzzi president repeated yesterday that he wanted to go ahead with the arrangement. But he accused the Government of creating "confusion and uncertainty."

This was at a time when preparations were being made to place 20 per cent of Enimont's equity in third party hands, in an exercise to which "my prestige is committed together with that of Ferruzzi and Montedison," he said.

Taking Groupe Bull by the horns

New chairman Francis Lorentz outlines the computer company's plans to Alan Cane

This week's long-awaited, widely-anticipated appointment of Mr Francis Lorentz as chairman and chief executive of Groupe Bull took place somewhat less dramatically than that of his predecessor, Mr Jacques Stern, at the state-controlled French computer manufacturer.

Mr Stern tells the story of his own succession in 1982 as follows: "It happened overnight. I was called at home on a Tuesday evening by Mr Pierre Dreyfus, the Industry Minister, who said: 'Do not be surprised to learn tomorrow that you have been appointed chairman of Bull. Can you see me tomorrow afternoon?'"

The circumstances were very different to those now. The French Government had just completed tortuous negotiations with Honeywell of the US and the industrial group Saint-Gobain over the renationalisation of Cii Honeywell Bull.

What has not changed is the fragility of the company's financial position.

After a comparatively sound 1988, Mr Lorentz has admitted that the group as a whole – Bull SA, the French arm, and *Bull HN, the international* company in which Honeywell and NEC of Japan have stakes of 15.6 and 15.0 per cent respectively – will miss its revenue target in 1989 and be hard-pressed to make a profit.

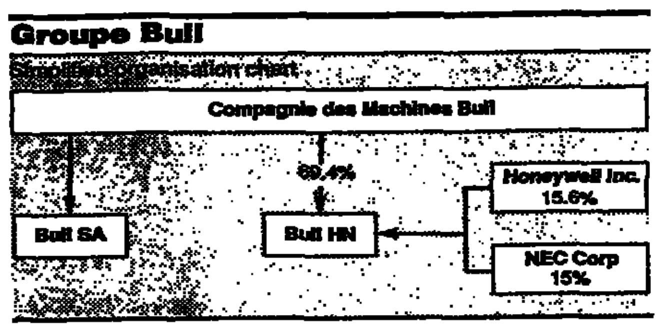
The reasons are production difficulties at the group's huge Angers plant, and the unexpected strength of the dollar, which means that Bull is paying more than it budgeted for semiconductor chips and peripheral equipment.

It is a disappointing legacy. But Mr Lorentz is sanguine about the future, arguing that the benefits of being forced to accelerate the group's cost-cutting and rationalisation measures compensate for the bad points to some extent: "The key word for the coming months will be selectivity. We need it. Our past history means we have too many products, too many programmes, too many technologies. The push towards selectivity will be very positive."

Mr Lorentz, 47, is a graduate of the French Institute of Commerce and the French Civil Service Academy. A civil servant for 10 years, he was deputy managing director of the Société Lyonnaise des Eaux before joining Cii Honeywell Bull as president and chief operating officer in 1982.

Since then, he and Mr Stern have managed the group through its complex series of changes of name and shareholdings as a partnership, making decisions in tandem. Mr Lorentz says his first objective is continuity of leadership – helped by Mr Stern remaining chairman of Bull HN, with Mr Roland Pampel as president and chief executive officer of the company.

Mr Lorentz says that the group will be guided by six strategic objectives. The first is to become, by the middle 1990s, the major European supplier of global information systems. Not just a supplier of computer hardware, he emphasises, but of integrated solutions, pulling together different kinds of computers and the communications, networking and applications software: "We have to take responsibility for the overall result of our information systems.



"There will be fewer and fewer suppliers of that kind," he says. "It will mean being one of the five or six companies of that kind that will still be around in the 1990s."

Bull's second objective is to develop a product strategy based on "distributed architectures," investing in network management – ways of distributing information through networks that interconnect hardware from different suppliers.

Mr Lorentz says that the company has taken a lead in attempting to integrate its proprietary products – which are optimised for high performance in specific applications – with industry standard products based around the Unix operating system. These free customers from dependence on a particular manufacturer (Bull was a founder member of the Open Software Foundation, which is developing industry standard software products).

International Business Machines, the world's dominant computer maker, intends to follow a similar route.

Mr Lorentz says that Bull can only achieve its ambitions if it is active in the US – its third objective: "Perhaps it is more important to be part of the US industry than to be present in the US market. A company's image – which is important today – is established in the US. Furthermore, it gives us access to the human and technological resources of the US.

"Through Bull HN we are spending some 40 per cent of our research and development funds in the US, although it provides only 18 per cent of our revenues."

To achieve these three goals, Mr Lorentz says, a fourth has to be set: to improve the group's internal productivity and external profitability. "Our profitability is very low compared to US standards – not that low compared with Japanese industry, a fact that nobody mentions, but still too low. We have to improve dramatically simply to reach French standards.

"We have to focus on simplifying our offerings and cutting our development expenses. Today, we are spreading our resources over too many product lines.

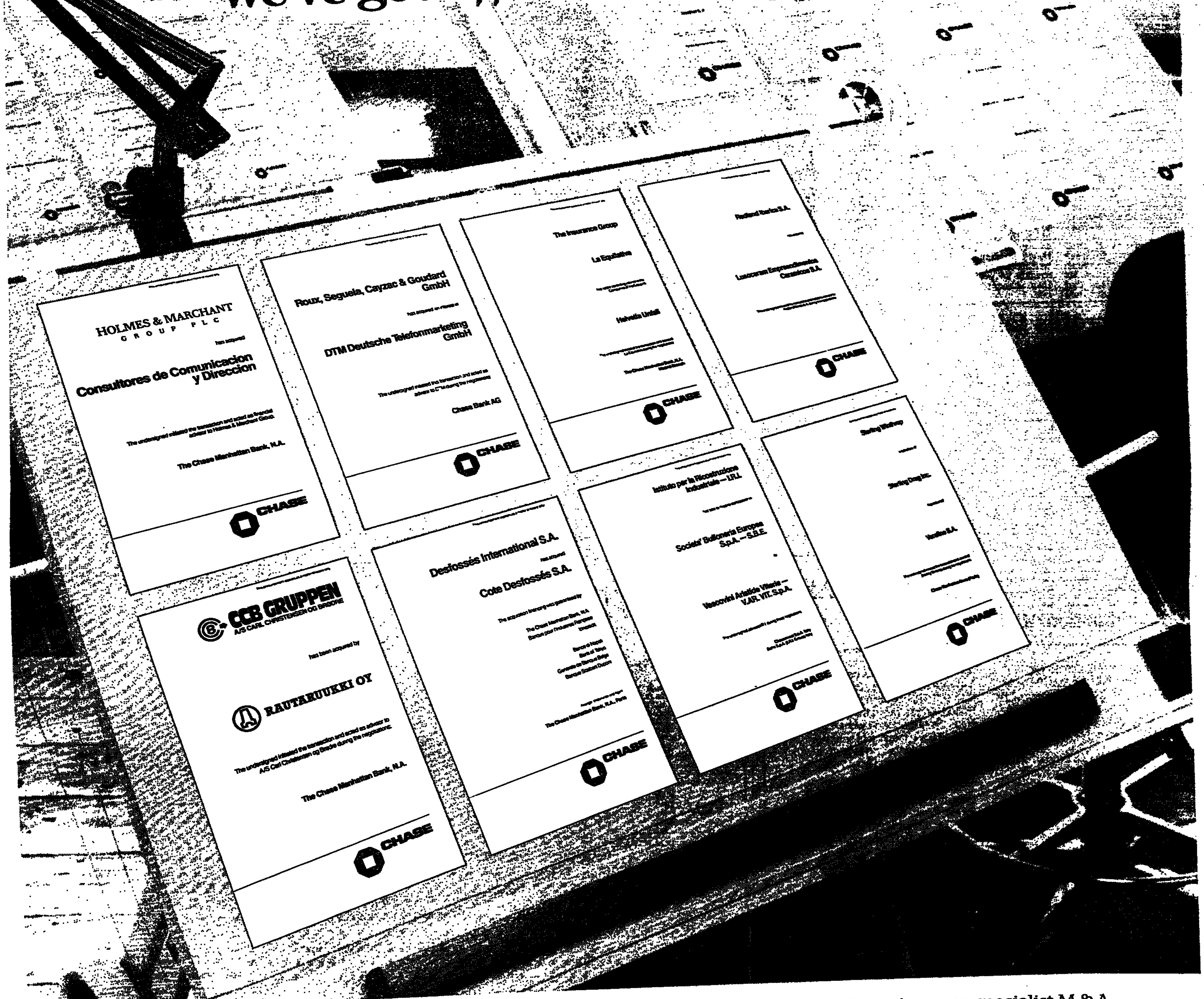
"On the other hand," he continues, "we have to protect our customers' investment in their existing equipment. So simplification will be a long process, *lasting perhaps four or five* years. There is no miracle to help here."

The troubles that both Groupe Bull and Honeywell Bull have faced over the years have meant that insufficient time and effort has been put into management, Mr Lorentz says ruefully. The fifth objective will address this: "We lost a lot of good people and we were unable to hire the best. *We have a long way to go* before being at the level of human resources and human resource management that I want us to be."

And the sixth aim is to become a truly European company. Bull is already active in every European country, but as two separate companies: "We will still be decentralised and have two separate identities, but one of our priorities will be to start, for example, European hiring programmes, hiring sales engineers at European level and training them through a common training course."

Mr Lorentz says that the group will look for acquisitions to strengthen its skills in systems integration or to give it new sales channels. However, just as important will be industry alliances, such as its co-operative venture with Olivetti of Italy in automated teller machines, and with ICL of the UK and Siemens of West Germany in basic research: "It is a world where you cannot survive without alliances," he says.

Just some of the M&A's that we've got off the drawing board.



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CHASE

INTERNATIONAL COMPANIES AND FINANCE

Bond says media 'misrepresented' tribunal findings

By Bruce Jacques in Sydney

MR ALAN BOND, the beleaguered Perth businessman, has hit back at his critics and the Australian Broadcasting tribunal with a paid-for announcement in Australian newspapers today and in international publications next week.

With a text headed "Dear Fellow Australians," Mr Bond admitted that this week's decision by the Australian Broadcasting tribunal – that he is not a fit and proper person to hold broadcasting licences – has damaged his entire business empire.

But he said the tribunal's findings had been misrepresented because they had been complex, although the underlying facts were very simple.

Mr Bond went on to reject the tribunal's findings and restate, at length, his own version of the events which were the subject of a year-long inquiry.

"Not a shred of evidence has been produced in the tribunal's inquiry that I or anyone associated with me has ever interfered with the selection and presentation of news or other programmes on the Nine Network," Mr Bond said. "Nor would I ever attempt to do so.

"In fact, some of the most probing scrutiny I have been subjected to has come from Channel Nine journalists. They are free to act without fear or favour and clearly do so.

"The one positive (thing) to arise from these events is that serious shortcomings have been highlighted about the way in which the tribunal process is conducted.

"It is widely acknowledged that no other Australian should again be subjected to such a drawn-out process which results in such uncertainties, and therefore changes must be made to the Act. Ultimately, this can only be good for the broadcasting industry.

"My conscience is clear regarding my conduct and I intend to pursue every avenue open to me to clear my name. The matter ... has been judged by a tribunal of three members who have decided that, after hearing evidence from many people, most of whom supported my situation, they would disbelieve the evidence and decide that I was not a fit and proper person to hold a broadcasting licence.

"Not one of the findings handed down by the tribunal indicates that I have in any way damaged any fellow Australian.

"But the tribunal's declaration ... has caused me great harm both personally and commercially. Its implications clearly go beyond the broadcasting industry and affect all my corporate activities in Australia and overseas.

"I have been a builder of businesses, a competitor for Australia worldwide. My companies employ more than 25,000 people. My achievements have been shared by many of them who have played an important part in those successes.

"I cannot accept that it is just when considering the totality of my achievements that these can be undermined by an administrative body which has effectively imposed a life sentence on me. I deeply regret that this stain on my reputation will endure until the tribunal's decision is set aside. I will not rest until it has been."

But even as he strongly defended himself yesterday, Mr Bond received further blows from two new quarters, Australian Ratings, the Australian credit rating group, and Thiess Watkins, a major contractor at the still unfinished Bond University in Queensland.

In an update on its latest report, which downgraded Bond Corporation's credit rating to CCC, Australian Ratings said the company would have trouble meeting its debts even after the proposed A$3.5bn (US$2.65bn) sale of its breweries to a subsidiary, Bell Resources.

The report said revenues from remaining operations in Bond Corporation appeared to be considerably below the levels needed to service remaining debt.

Debt servicing in Bell was also likely to be thin, and vulnerable to interest rate and currency shifts.

Australian Ratings said it had prepared the latest report in response to many subscriber enquiries. It said that, following the brewery sale, Bond could be faced with annual interest payments of about A$460m and one-off property sales would probably be the only way to maintain payments.

Australian Ratings estimated that the combined debt-to-equity ratio for Bond and Bell would rise from about 238 per cent before the brewery deal to 351.5 per cent afterwards. But the agency conceded that the brewery sale had potential to improve Bond's overall corporate profile in the medium term.

At Bond University, Thiess Watkins has stopped work on several unfinished buildings because of a contractual dispute with Bond and its 50 per cent partner, EIE International of Japan.

A Thiess spokesman said the dispute had continued for several months, and he hoped the work cessation would speed a solution.

Beleaguered NTT meets its public

Robert Thomson on frustrations aired at a Japanese annual meeting

The corporate thugs hired to ask awkward questions about financial fine detail at Japanese shareholders' meetings were not required yesterday at the annual gathering of Nippon Telegraph and Telephone, the country's largest company. In the past year, NTT's problems have been all too obvious – its former chairman and two other executives were arrested, the stock price has plunged by more than a third, and profits fell by 14.3 per cent.

With the front rows of a Tokyo hotel hall stacked with NTT employees ready to clap on cue, the beleaguered board was asked all the expected questions and a few others best described as idiosyncratic. A Mr Hanama complained that when he uses a public telephone to ring a broker to talk about his NTT investment, the phone is inevitably broken and his Y10 lost.

The most pressing problem yesterday was that small investors who invested in the part-privatised company are losing a lot more than Y10. After the meeting, a 34-year-old Setagaya woman explained that she had bought 10 shares at Y2.5m ($17,500) each, and with the price now at Y1.5m, is well down on the deal. She said the board "did not respond properly to the questions."

In all, informing the 1.54m shareholders about the meeting, attended by 4,645 of them, hiring hotel halls, and stationing NTT staff every few metres from the nearest station to the hotel to shepherd stray stockholders to the right room cost the company Y500m. For some, the meeting was a rare opportunity to give public voice to deep private frustrations.

A Mr Kamiyama asked the assembled board: "I wonder if the company sales force are tackling their task with high esteem and high enthusiasm – I don't think so." Several questioners compared NTT unfavourably to British Telecom in its treatment of stock holders, and others wanted to know what responsibility was being taken for the former executives' involvement in the Recruit financial scandal.

Apologies were humbly offered for the involvement with Recruit, which has leased high-speed data transmission circuits from NTT and leased them out to clients. As a result of the Recruit connection, Mr Hisashi Shinto, the former NTT chairman, and two other former executives are awaiting trial on charges of bribe taking. The board argued yesterday that the arrests involved "individuals" and not the company, but directors decided to cut their pay package by 15 per cent anyway.

Shareholders were particularly concerned by reports that the company will be broken up, and the impact that would have on the already diminished value of their holdings. Then there were frequent complaints that the company is merely a captive of the Ministry of Posts and Telecommunications, now examining the break-up option, and the Ministry of Finance, which holds 76.5 per cent of NTT stock.


Hisashi Shinto: awaiting trial

Several questioners compared the shareholders' plight to a locally famous case of trusting pensioners who were swindled several years ago by a shady investment company. Later, the head of that company was hacked to death by two axe-wielding men who committed the murder in the company of television cameras.

A Ms Tori asked if the case of an NTT repair man who assaulted a restaurateur with a knife after he complained about a faulty phone was typical of the attitude to customer complaints: "You are known as the world's largest company, can't you set a good example?"

The questioning was brought to a close after a long discussion of the varying virtues of digital phone faces with metal and plastic keys. An NTT official told shareholders that the phone face question is a "serious matter", explaining that the metal keys are an improvement but "if you press the metal keys too fast" you may lose your money.

At a later press conference, Mr Masashi Kojima, the NTT senior executive vice-president, said the meeting had run "rather smoothly." He described the increasing competition the company is facing from new communications competitors in terms of a very large sumo wrestler occasionally losing a fight to a smaller opponent. And Mr Kojima said the clapping of each director's answers by NTT staff in the audience was spontaneous: "They love our company, so when there is a good answer they naturally clap very loudly."

Stir at Elders as shareholders advised not to sell holdings

By Bruce Jacques in Sydney

DIRECTORS OF Elders IXL, the Australian brewing and agribusiness giant, yesterday set speculation running by telling shareholders not to sell their scrip pending a further announcement.

The directors would not comment on the mooted announcement, but said they decided to make yesterday's statement after a board meeting in London.

With Mr John Elliott, the chairman, also in London, analysts were speculating that the announcement may concern Elders' stalled plans for a separate float of its brewing operations. Another theory was that it may concern intervention by Elders in Goodman Fielder Wattie's A$1.8bn (US$1.36bn) takeover bid for Industrial Equity, the Sydney-based investment house.

Elders is also in the middle of a complex scheme which has the potential to give Harlin Holdings, a company controlled by Mr Elliott and other executives, an interest of up to 50.25 per cent in the company.

The scheme involves an issue of Elders shares, held by Goodman Fielder Wattie and AFP Group, to existing shareholders at A$3 each. It has been given a conditional "fair and reasonable" tag by First Boston Australia, a subsidiary of the US investment bank.

Last night's announcement said that the shareholders' meeting called to approve that deal has been delayed from July 5 to July 29 to allow shareholders to consider "material information" expected soon.

Elders is also waiting for approval from the Canadian authorities of its proposal for a merger between its Carling O'Keefe brewing group and industry colleague The Molson Companies.

Elders shares rose 1 cent to A$2.67 on light turnover on Australian stock exchanges yesterday.

Agencies add: Mr Paul Collins, the chief executive of Brierley Investments, the New Zealand-based investments group, says he believes that rumours of Adelaide Steamship preparing to outbid Goodman Fielder Wattie for Industrial Equity are untrue.

"There have been rumours about Adsteam possibly building a stake, possibly making a bid. I've heard these, and from our enquiries they're unfounded," Collins said.

Panoco settles its oil dispute with Nigeria

By William Dullforce in Geneva

PANOCEAN OIL Company has settled a four-year dispute with Nigeria and resumed its purchases of crude oil from the Nigerian National Petroleum Corporation (NNPC), the Swiss-based company said yesterday.

The dispute, during which a US oil company executive and two Swiss security guards were held in a Nigerian jail for five months, erupted when NNPC stopped supplying Panoco with 150,000 barrels a day of crude oil in July, 1985.

NNPC said Panoco was suspected of selling the oil to "non-recognised countries," a term applied to South Africa and Israel.

Panoco said the oil was being sold to Shell International Trading, which confirmed it had a contract to buy 150,000 b/d from Panoco and that none of it was going to areas prohibited by Nigeria.

Mr Vittorio Fabbri, Panoco's chairman, refused to pay $134m due to NNPC for deliveries made in 1984, until the Nigerians fulfilled their contract.

Panoco said yesterday that arbitration proceedings had now been "amicably terminated" and it had just signed a new agreement with NNPC for the purchase of 60,000 b/d of crude over the next three years.

The crude would be processed in the US.

Under the terms of the settlement, Panoco said it had agreed to pay "certain sums relative to previous oil liftings" to NNPC.

The payments will be made under the terms for the sale of oil under the new contract.

Mr Herbert Rooks, the American president of Panoco Incorporated, a Geneva-based oil services and management company, was arrested together with Mr Sylvain Stragiotti and Mr Michel Piguet, two Swiss citizens, in Lagos in 1987.

Nigerian newspapers reported that they were being held as "witnesses."

No charges were filed against the three men, who Panoco said had nothing to do with the dispute over the original contract.

INTERNATIONAL CAPITAL MARKETS

European rate increases fail to dent Treasuries

By Karen Zagor in New York and Norma Cohen in London

US BONDS and the dollar overcame a round of European interest rate hikes led by the Bundesbank to hold firm in midday trading in New York.

After initially dipping on news that Germany had raised its discount and Lombard rates by ½ a point each, the Treasury's benchmark 30-year long bond moved up ⅝ point to 108⅝ in mid-session trading, yielding 8.09 per cent. The Federal Reserve arranged overnight system repurchase agreements when Fed Funds were at 9⅝ per cent.

The dollar regained early losses to trade at Y143.45 and DM1.9515 at midday, from 142.0 and DM1.1.9605 late on Wednesday in New York. The market had been worried that the rate increases in France, Switzerland, Austria, Denmark, Belgium and the Netherlands would prompt the Federal Reserve to lower US interest rates, which could undermine the dollar. The currency benefited from continuing weakness of the yen because of political uncertainty in Japan.

The market is now looking to the release of factory goods orders today, which analysts expect to show a decline of 2.5 per cent, underscoring the current weakness of US economic activity. Recent declines in data such as the leading economic indicators has raised the bond market's hopes of further easing of monetary policy by the Fed.

■ FRENCH government bond prices fell in response to news of a much wider than expected trade deficit in May and and a rise in the country's key intervention rate.

While economists had been expecting a May trade deficit of anywhere from FFr2.5bn to FFr4bn, news of a FFr6.6bn shortfall took the markets by surprise. However, dealers said the rise in official interest rates had been foreshadowed, with the call money rate edging up to 9 per cent. Yesterday it rose to 9.07 per cent.

Recent economic growth in France has been very strong and analysts point out that even without the impetus of other European rate increases, monetary authorities might have been forced to raise the country's interest rates.

France's official intervention rate was raised yesterday to 8¾ per cent from 8¼ per cent immediately following news of half-point increases in West Germany's discount and Lombard rates.

However, yields rose only modestly in very thin trading, with prices underpinned somewhat by a rally in the US Treasuries market. The key 8¾ per cent BTAN due 1999 yielded 8.68 per cent by the close of trading, up from 8.65 per cent the day before.

GOVERNMENT BONDS

■ UK GOVERNMENT bond prices fell as much as a half-point in thin futures-driven trading that as much reflected a bout of profit taking as it did concern over concerted European interest rate rises.

Dealers said that retail buyers were virtually non-existent. Concern remains that the rate hikes in Germany may prompt further weakness in the pound. Dealers noted that sterling/D-Mark rates softened slightly in response to the rate rises.

■ GERMAN government bond prices rose swiftly following the rise in the key Lombard and discount rates to 5 and 7 per cent respectively. Over the course of the day, bunds gained about 15 pfennigs.

While dealers had believed a half-point rise in the Lombard rate might be made by end-July, both the timing and scope of the rate rises yesterday took the markets by surprise.

Still, dealers explained the rise in bond prices as one which reflects the view that interest rates are now sufficiently high to handle Germany's inflation problem. They were also encouraged by the Bundesbank's announcement that the next repurchase agreement tender would be in fixed-rate form at 6.60 per cent.

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS	13.500	9/92	105-16	-10/32	11.38	11.56	11.33
	9.750	1/98	95-12	-16/32	10.59	10.73	10.47
	9.000	10/08	95-02	-18/32	9.56	9.70	9.42
US TREASURY *	9.125	5/99	105-20	+7/32	8.13	8.33	8.00
	8.875	2/19	108-20	+10/32	8.10	8.31	8.27
JAPAN No 111	4.800	6/98	94.5824	-0.341	5.51	5.43	5.48
No 2	5.700	3/07	104.6127	-0.242	5.20	5.16	5.17
GERMANY	7.000	2/99	101.8500	+0.100	6.72	6.71	7.00
FRANCE BTAN	8.000	1/94	96.6258	-0.157	8.94	8.90	8.93
OAT	8.125	5/99	98.3800	-0.180	8.68	8.63	8.57
CANADA *	10.250	12/98	105.6000	+0.450	9.34	9.55	9.68
NETHERLANDS	7.000	3/99	99.1250	+0.075	7.12	7.14	7.52
AUSTRALIA	12.000	7/99	91.8873	+0.280	13.51	13.60	14.01

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on June 29

	Issued	Bid	Offer	Change on day	Change on week	Yield
US DOLLAR STRAIGHTS						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available-previous day's price
† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (three-month; above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Japanese hold breath ahead of Tiffe start

By Stefan Wagstyl in Tokyo

TOKYO MONEY market traders were holding their breath this morning for the opening day of the Tokyo International Financial Futures Exchange.

The creation of the exchange, which trades interest rate futures in dollars and yen and yen-dollar exchange rate instruments, is a key element in the internationalisation of Tokyo as a world financial centre.

It also closes an important gap in the globalisation of world futures markets. The exchange's trading hours will fill most, though not all, of the hours between the closing of the Chicago exchanges and the opening of Liffe in London.

But the establishment of the exchange has been dogged by serious arguments between the sharply-divided Japanese banking and stockbroking communities, which delayed preparatory work. Officials have had to work seven days a week for months to make sure the exchange would be ready in time.

This week bankers had their fingers crossed that everything would go smoothly. But some were glad that the exchange was starting on a Friday – leaving the weekend to clear up any mess. "It might be catastrophic," said one Japanese banker.

At the exchange, to be known officially as the Tiffe and unofficially as "tuffee," 243 Japanese and 20 foreign companies will trade three contracts – three-month Euroyen and Eurodollar interest rate futures and yen futures.

The Japanese Ministry of Finance is disappointed with the small number of foreign companies involved – it had hoped for about 50. Several potential foreign members were put off by the tight schedule for submitting applications. Some are expected to join in the next year.

Other foreign companies – including Citicorp Financial Futures and Morgan Stanley of the US, Barclays Bank of the UK and Banque Indosuez of France – believe it is better to be in the market from the beginning. They believe foreign companies can benefit from the experience of trading other exchanges.

Tiffe forecasts that after massive turnover on the opening day – boosted by the traditional round of congratulatory orders between traders – volume will settle down to about 25,000 to 45,000 contracts daily in the first year. Thereafter it might grow at between 20 and 30 per cent a year.

Bankers believe the bulk of the business will be in Euroyen, perhaps between 75 and 80 per cent of the total, with between 15 and 20 per cent in Eurodollars. They do not expect big turnover in yen futures since customers will prefer the more flexible over-the-counter packages, including options, sold by banks.

They also believe that initially between 70 and 80 per cent of the turnover will be own account trading by banks and securities companies, with big cash positions to hedge.

Banks believe they will dominate Eurodollar trading, but securities companies may capture an equal share in Euroyen contracts. Competition is likely to be intense, with both sides anxious to win maximum market share in the new market as a way of proving their power in the wider tussle over access to markets between Japanese securities companies and banks.

Apart from banks and securities companies the main users are likely to be financial institutions and corporations, especially trading companies. Individuals will not be allowed to participate, although the Ministry of Finance is reviewing this prohibition.

In a parallel move, Japanese banks and securities companies will from today be allowed to broke in Japanese futures contracts traded on foreign exchanges. Hitherto they have been allowed to trade them only on their own account. Clients wanting to trade have had to place orders through their foreign subsidiaries.

Sydney to stop NY linked gold contract

THE Sydney Futures Exchange (SFE) plans to suspend trading in its gold contract linked to the New York Commodities Exchange (Comex), Reuter reports. The suspension follows a decline in trading volumes, an SFE official said.

The official said there had been no final decision as to when the suspension will take place. His comments confirm recent remarks by Comex chairman, Mr John Hanemann, to the World Gold Conference in Lugano that the suspension had been considered.

INTERNATIONAL CAPITAL MARKETS

World Bank taps Canada dollar sector for C$150m

By Katharine Campbell

THE CANADIAN dollar sector was tapped for the second time this week with C$150m 10-year issue for the World Bank. While the deal was well received, market traders reckoned lead manager IBJ International had had to heavily subsidise it in order to come by a favourable swap rate for the borrower.

With a 10⅛ per cent coupon, the paper was issued at a spread over Canadian government bonds of 56 basis points. It was around six basis points narrower than the deal at the beginning of the week for OKB, appropriately reflecting the quality of the borrower.

Dealers commented that, on the supposition the World Bank's swap rate target would be 50 basis points or better below the London interbank offered rate, IBJ's subsidy would have been in the order of 25 basis points.

Meanwhile, in the US dollar sector, Japan Development Bank brought a five-year $200m issue, which the market again suggested had been subsidised by the lead manager, in this case Bank of Tokyo Capital Markets.

Carrying a Japanese government guarantee the deal apparently went well, helped during the afternoon by a surprise rally in the US government bond market.

Despite initial nervousness on the announcement of a co-ordinated rise in European interest rates, expectations of favourable news issuing from the next National Association of Purchasing Managers survey cheered Treasuries and helped the issue along.

A five-year dollar floating rate note for Mellon Bank Corporation, issued in the amount of $200m with a coupon paying

INTERNATIONAL BONDS

a 20 basis point margin over Libor, apparently suffered initially from some confusion over the status of the debt.

Kidder Peabody, the bookrunners, said it had confirmed with the US authorities that the issue would count as senior unsubordinated debt for capital purposes. Some market participants were apparently worried the paper might count as subordinated debt. It was quoted at 99.70 bid within fees of 40 basis points.

A 15-year $100m subordinated debt convertible for US advertising agency Omnicom Group met with a firm reception, lead manager Morgan Stanley said. It fixed the coupon at 6.5 per cent yesterday.

With Tuesday's closing price on the Nasdaq-quoted shares at $23, the conversion premium was 21.7 per cent. The holder has a right to put the paper at par to yield 9.00 per cent in seven years time.

Omnicom recently took over UK agency and marketing services Bosse Massimi Pollitt.

The lead manager said most interest had been shown by UK and Swiss investors. It quoted a price of par on the bid side of the market.

Meanwhile in the equity warrant sector, Mitsubishi Petrochemical Company issued a $320m global placement. Nikko Securities led the European tranche in the amount of $220m. Yamaichi International(HK) brought the $100m Asian tranche. The indicated coupon is 5.00 per cent and will be set on 5 July. Yesterday's trading level was quoted as less ¼ to the par issue price, indicating a healthy reception, given total fees of 2 ¼ per cent.

Shimizu Corporation issued a $700m four-year deal with warrants attached, with an indicated coupon of 4.375 per cent. Terms will be set on July 5. It was trading at ⅛ per cent above the par issue price and the lead manager said the deal had been very well received.

Elsewhere, Bankers Trust's one-year A$50m dual currency bond for Credit Lyonnais offers a 21 per cent coupon, with redemption tied to the A$ Belgian franc exchange rate. Clearly targeted towards retail Belgian investors, some market sources not involved in the deal commented that investors, attracted by the generous coupon might be overlooking the fact that they were in fact running a considerable risk by effectively writing an in-the-money option to Bankers.

London to cut dealing book to 50 stocks

By Stephen Fidler

THE name Savory, Milln had already disappeared from the letterheads before yesterday's announcement that it was ending market making in all but a selected group of stocks.

According to Mr Fritz Köhli, Swiss Bank Corporation general manager, the number of stocks in which SBC London would be made would shrink to about 50 from 300. The remaining stocks would include those in which Savory, Milln has had traditional research and market making strengths: construction, engineering and building materials. It would also to continue to make markets in selected food stocks.

Although 90 jobs would go in the market making area, about 20 people would be found positions elsewhere.

Savory Milln had also had some success in building a European equities trading operation.

This international operation was built up by Mr Hugh Hughes, formerly of Wedd Durlacher. Neither he nor Mr Robert Erith, formerly the senior partner of Savory Milln, were returning phone calls yesterday.

However, the bank did deny reports that losses of £19m had been incurred by Savory Milln already this year. "The losses incurred by SBC London's business in UK equities, after full allocation of all attributable costs, for the first five months of the current financial year amount only to a small fraction of this figure."

SBCI retreats from the City

Stephen Fidler on a shift in global strategy for the big Swiss bank

The partial retreat of Swiss Bank Corporation International from the London equities market reflects a malaise affecting nearly every bank which has sunk money into dealing in UK securities.

In a statement yesterday, the bank explained its shift in investment banking strategy in the following way: "The financial services industry has undergone unprecedented change over the last few years, faster than we, or we believe most in the industry foresaw."

Greater professionalism among users and investors "has caused the potential for commission earning in the old sense of the word in broking and bond markets to be greatly reduced," it said.

No country had escaped these changes. But "because of the nature of the markets operating in London and the wholesale change in the regulatory environment there, the effects have perhaps been more dramatic in London than elsewhere." Hence, the changes are more far reaching in London than elsewhere.

In the narrow world of the UK equities market, all three big Swiss banks – and many of their competitors – have faced difficulties. Credit Suisse have been forced into retreat at Buckmaster & Moore. Union Bank of Switzerland, the largest Swiss bank, has made huge losses at Phillips & Drew, and SBC has suffered with its smaller investment at Savory, Milln.

However, Credit Suisse's foray into international investment banking through a link with the US securities house First Boston is older and has proved more successful than either of the other two.

With a mere half dozen or so Credit Suisse officials on the staff, Credit Suisse First Boston has not suffered from the clash of commercial and investment banking cultures

Andrew Large: executed shift in strategy

which have affected both UBS and SBCI and many other commercial banks.

Investment bankers tend to earn higher salaries than their commercial banking counterparts, something which might have been acceptable if the investment banking arm was profitable. Amid significant losses for the investment banking arm, however, there was a significant tension, particularly given the commercial banking arm's historically strong international connections.

The bank's London investment banking arm lost £21m last year, and Savory Milln, since subsumed into SBCI London, accounted for £8m. The SBCI company in New York recorded a $20m loss and the Hong Kong and Tokyo operations a $5m loss.

Causing further difficulties for its international operations were the problems connected with Co-op, the German retail concern. Although the Bank says only one quarter of one per cent of the bank's balance sheet is tied up in the Co-op issue, its strong international reputation took something of a battering.

If losses in the London share market and culture clashes are not a particular Swiss problem, the Swiss banks face a changing environment at home which could make their lives more difficult. Furthermore, over the last two years, Credit Suisse, the third largest bank, has stolen something of a march over the other two banks in the capital markets business, attributed partly to the efforts of Mr Hans-Jörg Rudloff, now head of CSFB in London.

It is also suggested, though denied that shareholder pressure is also growing on the affected banks to sort out their international operations.

Like others, Swiss Bank now sees opportunities in the restructuring of corporate Europe ahead of 1992. Its new strategy involves the strengthening its corporate finance arm. New operations will be created in Spain and Italy while an investment company will be established in the UK and other countries to hold equity investments over the short- to medium-term.

In Italy, the bank has taken a 70 per cent stake in M & A Societa, a corporate finance boutique based in Milan. In Spain, one new company will be responsible for mergers and acquisitions and another on equity underwriting and distribution. In France, its holding in Banque Stern in Paris has been increased to 100 per cent.

The primary and secondary trading of equities will be combined in both Europe and Far East, but the UK will not be emphasised.

The Treasury and fixed income department will be combined into one unit in London, and to the extent possible in New York and Singapore.

Supervision of international capital markets business will continue through London, although the distribution and trading of debt and equity will be carried out through local offices. Thus Frankfurt and Amsterdam will take over trading of domestic debt and equity in West Germany and Holland, in a change which will make no difference to staffing in London, according to the bank. Non-Japanese business will be transferred from Tokyo to Singapore, and dealing in US Treasuries have been transferred to a separately incorporated New York subsidiary.

The changes represent a significant shift in a strategy largely mapped out and executed by Mr Andrew Large, the Briton who announced in May that he would leave the bank when his contract ran out next year. Mr Fritz Köhli, general manager and member of the executive board of Swiss Bank in Basle, said the dismantling of Mr Large's creation, SBCI, was not the reason for Mr Large leaving. In fact, Mr Large had played his part in mapping out the new strategy.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Japan Development Bank(d)♦	200	8⅞	101.575	1994	1⅞/1⅛	Bank of Tokyo Cap.Mkts
Mellon Bank Corp.(e)♦	200	20bp	100	1994	40/20bp	Kidder Peabody Secs.
Omnicom Group(f)§♦	100	6½	100	2004	2½/1½	Morgan Stanley Int.
Suez Finance/Frabepar(g)♦♦	166.65	5	110	1994	2¼/1½	Banque Indosuez
Shimizu Corp.♦	700	(4⅜)	100	1993	2¼/1½	Yamaichi Int. (Europe)
Mitsubishi Petrochemical♦	220	(5)	100	1994	2¼/1½	Nikko Secs. (Europe)
Mitsubishi Petrochemical♦	100	(5)	100	1994	2¼/1½	Yamaichi Int. (H.Kong)
CANADIAN DOLLARS						
World Bank♦	150	10⅛	101⅝	1999	2/1⅝	IBJ Int.
AUSTRALIAN DOLLARS						
State Elec.Comm.Victoria♦	150	Zero	39.75	1996	1⅝/⅞	Hambros Bank
Credit Lyonnais(c)♦	50	21	101⅞	1990	1/⅝	Bankers Trust Int.
SWISS FRANCS						
Sumitomo Electric Ind.(a)♦♦§	300	Zero	100	1993	n/a	Credit Suisse
Daiwa Industries(b)♦♦§	30	(⅞)	100	1994	n/a	Bank Leu
GUILDERS						
Mitsubishi Petrochemical♦	200	2¾	100	1994	2¼/1½	Amro Bank

♦♦Private placement. ♦With equity warrants. §Convertible. †Floating rate notes. ♦Final terms. a) Indicated yield to put 3.791%. b) Indicated yield to put 4.28%. c) Redemption linked to B.Fr. But all payments made in A$. d) Non-callable. e) 20bp over 3-month Libor. Call at par on coupon dates from July 1990. f) Put and call options. g) Warrants issued in name of Frabepar.

Suez Finance sets price

THE EXERCISE price for the warrants attached to the $240m, five year Eurobond being issued by Suez Finance, the Dutch arm of the French Suez banking group, has been set at FFr355, Reuters reports.

The warrants are exercisable into shares of the parent holding company, Compagnie Financière de Suez, which is guaranteeing the deal. The exercise price represents a premium 4.40 per cent over the share price at the time it was set. The issue is in two tranches. One, a private placement, will raise $88.50m. The second, raising $166.65m, is sold with attached warrants bearing the name of another Suez subsidiary, Frabepar, based in Belgium. This is convertible into Compagnie Financière de Suez shares.

The bonds, both those syndicated and those privately placed, are priced at par and are listed in Luxembourg. They mature at par on July 31 1994.

Dutch to ease banking curbs

THE DUTCH Government is to remove curbs on Dutch banks and insurers barring them from investing in each other's equity and limiting their rights to co-operate with rivals abroad, Reuters reports.

Mr Onno Ruding, Finance Minister, said the Government intended to cancel the so-called "structural policy" from January 1 1990. The curbs have been in force for the past nine years.

Danish bank innovation

By Hilary Barnes in Copenhagen

AN IMPORTANT innovation in Danish banking will take place this autumn when SDS, the country's largest savings bank, converts itself into a limited company.

SDS, currently self-owned, will adopt a holding company structure, which means the group will be able to diversify into other financial service industries besides banking.

It will be the first Danish bank to do this, although the large insurance companies have already adopted holding structures enabling them to diversify into banking and other services.

The SDS share offer, with a nominal value of DKr1.6bn ($210m), will be Denmark's biggest so far. It will take place in September.

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS. Figures in parentheses show number of stocks per section	Thursday June 29 1989: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Wed Jun 28 Index No.	Tue Jun 27 Index No.	Mon Jun 26 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (206)	962.66	-0.7	10.93	4.13	11.24	14.74	969.66	965.25	960.61	789.99
2	Building Materials (29)	1193.22	-0.4	11.91	4.39	10.37	22.32	1197.80	1194.73	1184.59	1005.93
3	Contracting, Construction (37)	1620.99	-0.5	14.50	4.33	9.05	30.72	1628.73	1629.66	1630.91	1595.48
4	Electricals (9)	2815.93	-1.2	8.48	4.09	14.56	50.60	2851.34	2866.13	2868.81	2806.82
5	Electronics (31)	2217.76	-0.4	8.80	3.29	14.84	23.92	2227.67	2208.93	2202.14	1701.30
6	Mechanical Engineering (54)	529.81	-1.0	10.84	4.03	12.25	8.04	535.04	534.14	531.61	418.18
8	Metals and Metal Forming (7)	516.40	-1.1	19.40	5.80	5.68	3.02	522.17	518.40	517.21	476.80
9	Motors (17)	326.53	-0.9	11.38	4.65	10.32	6.83	329.47	328.98	328.07	278.19
10	Other Industrial Materials (22)	1642.60	-1.0	9.16	4.21	13.84	26.35	1659.48	1641.79	1621.59	1322.95
21	CONSUMER GROUP (187)	1237.63	-1.0	8.94	3.65	13.99	17.90	1250.48	1250.60	1240.60	1098.58
22	Brewers and Distillers (22)	1355.84	-0.9	10.02	3.57	12.54	19.41	1368.40	1365.73	1350.29	1119.00
25	Food Manufacturing (20)	1099.86	-0.5	9.24	3.80	13.55	17.15	1105.25	1106.41	1099.71	909.36
26	Food Retailing (15)	2347.74	-0.8	8.60	3.26	15.26	25.59	2367.25	2382.82	2389.37	2024.79
27	Health and Household (14)	2259.46	-1.7	6.56	2.63	17.29	21.50	2297.53	2305.37	2280.83	1873.71
29	Leisure (33)	1659.44	-0.6	7.66	3.42	16.34	22.05	1669.74	1663.78	1650.62	1345.40
31	Packaging & Paper (15)	562.10	-0.6	10.34	4.37	12.24	8.15	565.30	562.96	561.74	525.40
32	Publishing & Printing (19)	3525.66	-1.2	8.73	4.70	14.45	71.88	3569.55	3568.65	3558.35	3442.97
34	Stores (34)	818.53	-1.4	11.10	4.40	11.79	14.98	829.89	827.67	814.34	815.62
35	Textiles (15)	538.76	-0.7	10.99	5.38	10.89	13.42	542.39	539.35	539.51	606.69
40	OTHER GROUPS (93)	1131.07	-1.1	10.88	4.16	12.07	13.55	1143.65	1149.32	1136.65	914.05
41	Agencies (17)	1407.60	-1.0	7.14	2.31	17.32	14.91	1421.89	1420.80	1423.63	1165.42
42	Chemicals (22)	1291.70	-2.0	11.04	4.61	10.69	26.30	1317.46	1325.86	1309.31	1103.44
43	Conglomerates (12)	1656.58	-0.8	10.17	4.90	11.58	28.16	1669.61	1667.77	1649.23	1298.18
45	Transport (13)	2465.46	-0.7	8.56	3.66	15.19	39.22	2482.67	2481.62	2468.82	1912.54
47	Telephone Networks (2)	1092.89	-1.9	11.41	4.54	11.36	2.76	1113.80	1132.16	1109.02	1007.08
48	Miscellaneous (27)	1674.38	+0.1	9.52	3.57	11.93	23.26	1672.02	1672.31	1665.93	1174.62
49	INDUSTRIAL GROUP (486)	1156.95	-1.0	9.82	3.93	12.57	16.18	1168.21	1168.49	1159.11	979.57
51	Oil & Gas (14)	2122.01	-1.5	10.01	5.27	13.27	51.14	2155.12	2125.53	2092.44	1834.09
59	500 SHARE INDEX (500)	1238.59	-1.0	9.84	4.11	12.66	19.84	1251.62	1249.56	1238.29	1052.80
61	FINANCIAL GROUP (124)	732.58	-1.3	–	5.38	–	17.62	741.90	739.63	731.38	711.87
62	Banks (8)	725.60	-2.3	24.56	6.59	5.35	21.71	742.58	737.82	724.43	685.25
65	Insurance (Life) (8)	1058.61	-0.9	–	5.64	–	29.86	1068.22	1064.62	1050.31	1066.97
66	Insurance (Composite) (7)	578.05	-1.1	–	6.23	–	16.75	584.54	582.14	572.85	550.52
67	Insurance (Brokers) (7)	970.78	-1.0	7.78	6.46	17.29	31.63	980.35	972.19	959.20	987.70
68	Merchant Banks (11)	334.41	-0.2	–	4.64	–	5.93	335.17	332.60	328.72	359.73
69	Property (52)	1302.00	-1.0	6.39	2.94	19.94	15.98	1314.99	1320.39	1316.20	1224.63
70	Other Financial (31)	359.03	+0.7	11.55	6.12	11.02	8.02	356.47	354.69	353.95	388.06
71	Investment Trusts (70)	1158.78	-0.8	–	2.83	–	14.25	1167.84	1164.79	1159.09	914.59
81	Mining Finance (2)	661.24	-0.4	8.73	3.88	12.76	10.45	664.02	667.12	664.66	517.46
91	Overseas Traders (8)	1326.78	-0.6	11.35	5.59	10.02	35.07	1334.14	1328.68	1321.28	1163.60
99	ALL-SHARE INDEX (704)	1114.89	-1.0	–	4.26	–	18.53	1126.49	1124.67	1114.48	963.01

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jun 28	Jun 27	Jun 26	Jun 23	Jun 22	Year ago
FT-SE 100 SHARE INDEX‡	2182.0	-27.4	2201.5	2179.7	2209.4	2206.4	2179.6	2167.5	2180.0	1857.6

FIXED INTEREST

	PRICE INDICES	Thu Jun 29	Day's change %	Wed Jun 28	xd adj. today	xd adj. 1989 to date
	British Government					
1	5 years	116.93	-0.36	117.35	–	6.18
2	5-15 years	130.71	-0.53	131.41	–	6.96
3	Over 15 years	141.81	-0.62	142.69	–	7.09
4	Irredeemables	163.04	-0.67	164.13	–	7.32
5	All stocks	128.94	-0.49	129.57	–	6.81
	Index-Linked					
6	5 years	135.95	-0.29	136.34	–	1.36
7	Over 5 years	133.58	-0.19	133.84	–	1.88
8	All stocks	133.64	-0.20	133.91	–	1.82
9	Debentures & Loans	112.86	....	112.87	–	5.91
10	Preference	87.64	....	87.64	–	3.10

	AVERAGE GROSS REDEMPTION YIELDS		Thu Jun 29	Wed Jun 28	Year ago (approx.)
	British Government				
1	Low	5 years	10.01	9.95	9.37
2	Coupons	15 years	9.50	9.41	9.49
3		25 years	9.33	9.26	9.27
4	Medium	5 years	10.98	10.81	9.85
5	Coupons	15 years	9.96	9.88	9.70
6		25 years	9.52	9.46	9.48
7	High	5 years	11.11	10.95	9.93
8	Coupons	15 years	10.16	10.10	9.87
9		25 years	9.69	9.66	9.56
10	Irredeemables		9.37	9.30	9.49
	Index-Linked				
11	Inflation rate 5%	5yrs.	3.84	3.75	2.73
12	Inflation rate 5%	Over 5 yrs.	3.73	3.72	3.86
13	Inflation rate 10%	5 yrs.	3.06	2.96	1.73
14	Inflation rate 10%	Over 5 yrs.	3.56	3.55	3.69
15	Debs &	5 years	12.00	12.00	10.83
16	Loans	15 years	11.68	11.68	10.79
17		25 years	11.35	11.35	10.75
18	Preference		10.32	10.32	9.61

‡Opening index 2197.8; 10 am 2194.0; 11 am 2194.4; Noon 2188.7; 1 pm 2191.3; 2 pm 2184.3; 3 pm 2180.2; 3.30 pm 2181.9; 4 pm 2185.5
(a) 9.22am (b) 2.56pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	2	98	6
Corporations, Dominion and Foreign Bonds	10	12	20
Industrials	237	561	790
Financial and Properties	74	244	343
Oils	23	26	44
Plantations	1	0	11
Mines	66	36	74
Others	48	101	96
Totals	461	1,078	1,384

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -
170	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9	6	8/9	11pm	7¼pm	Bear Brand	10¼pm	-¼
62	Nil	-	6pm	3pm	♦Castle Hldgs.	3pm	
61	Nil	-	12pm	7½pm	Fife Indmar	12pm	
10	Nil	-	20pm	13pm	♦Global Group 10p	15pm	
78	Nil	-	21pm	9pm	♦Midland & Scottish Resources	20pm	+1
220	Nil	-	20pm	13pm	Plaxton Group	18pm	-2
435	Nil	4/8	74pm	50pm	RTZ 10p	58pm	-4
8	F.P.	-	8½	8¼	♦Southwest Res. A 2p	8¼	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on Prospectus or other official estimates for 1989. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ψ Issued by tender. § Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ‡ Unlisted securities market. ♦ Official London listing. □ Including warrants entitlement. * Third Market.

TRADITIONAL OPTIONS

- First Dealings Jun 26
- Last Dealings Jul 7
- Last Declarations Sep 28
- For settlement Oct 9

For rate indications see end of London Share Service

Calls in Tusker Resources, Bass, Aberdeen Petroleum, S W Wood, Samson Exploration, Medirace, Ass. British Eng'g, Equity & General, Pentland, Oliver Resources, United Biscuits, Hicking Pentecost, and Regentcrest. Put in Polly Peck.

LONDON TRADED OPTIONS

[illegible]

June 29 Total Contracts 39,304
Calls 21,653 Puts 17,651
FT-SE Index Calls 3805 Puts 7087
*Underlying security price.

BPB cautious after rise to £202m

By Andrew Taylor, Construction Correspondent

BPB INDUSTRIES, currently facing its first serious competition for almost two decades in the UK plasterboard market, increased pre-tax profits by 11 per cent to £202.3m in the 12 months to March 31.

BPB shares yesterday rose 7p to 236p despite a warning from Mr Alan Turner, chairman, that profits were likely to be flat and could even dip slightly this year.

"We face additional costs in the current year as reorganisations in the UK and France are completed. These will substantially reduce our cost base and enable us to maintain margins should we need to reduce prices," he said.

In the UK, BPB is facing competition from Knauf, a West German group which earlier this year opened a plasterboard plant in Sittingbourne, Kent, and from Redland, the UK group, and CSR of Australia which plan to open a plasterboard plant in Bristol later this year.

Mr Turner said more efficient working practices, involving the loss of about 500 jobs in the UK, had been agreed with the workforce. The introduction of the scheme will cost the company about £6m in the current financial year.

He said improved efficiency together with the re-build of the board mill at Purfleet would, if necessary, allow the group to cut prices by 10 per cent without reducing profitability.

Costs would also be higher this year in France where BPB plans to rationalise its business following the acquisition of Henry et Cie. This increased BPB's share of the French market to about 55 per cent.

"Our aim is to maintain our position as market leader in the western European plasterboard markets which we expect to double in size in the next 10 years," said Mr Turner.

Building material profits rose from £141.9m to £152.8m despite a combined fall of 18 per cent in Canada and France.

Paper and packaging profits rose from £25.9m to £28.5m.

Group turnover rose 10.5 per cent to £960.8m, while earnings per share increased from 28.8p to 32.2p. The proposed final dividend of 7p makes a total of 10.75p (8p) for the year.

See Lex

Isosceles publishes Salomon assumptions

By Nikki Tait

ISOSCELES, one of the two rival bidders for Gateway, Britain's third largest food retail group, yesterday published the assumptions used by Salomon Brothers, the US investment bank, when it put a valuation on the equity element in Isosceles offer.

The equity element is critical to the bid situation. Isosceles is offering only 230p per Gateway share in cash and cannot increase this, while rival bidder Newgateway has offered 237p a share and hinted that it might go higher. However, Isosceles also has a cash and paper alternative, within which the cash element is 215p and on the Salomon valuation, the equity element is said to be worth 30p to 35p a share. If so, this alternative become worth 245p-250p per Gateway share.

Yesterday's lengthy statement from Isosceles, explained that the valuation depended on determining an expected value for Isosceles' ordinary shares between 1991 and 1993 and discounting this value to calculate a present value.

The Isosceles preference shares have been valued by discounting the expected future cash-flows from dividends and redemption. Gateway shareholders are being offered units made up of three ordinary shares and nine preference.

On the preference shares, Salomon used discount rates of 19 to 21 per cent, resulting in a value of 178p to 200p per share. On the ordinary shares, it was approximately 30 per cent, arriving at values of £14.70 to £17.30 for each ordinary share.

The long methodology set out last night gives no indication of expected profits of Isosceles nor the multiple on which its shares are assumed to trade.

The bidder does, however, defend the earlier statement from its brokers Panmure Gordon which said that each Isosceles unit was worth not less than 15p per Gateway share. "This minimum valuation primarily reflected the financing structure of Isosceles offer, being the price at which institutional shareholders in Isosceles will subscribe for units," it says. "It did not purport to be an estimate of the price which an Isosceles unit could be expected to hold in market trading."

Meanwhile, Associated British Foods, which has already sold a 15.1 per cent stake in Gateway to Isosceles said it will make a £89.1m profit over investment book value, which will be treated as an extraordinary item. It has previously written down the value of its Gateway shares since they were acquired.

See Lex

Steetley raising £20.7m in novel French issue

By George Graham in Paris

STEETLEY, the UK construction materials group, is to raise £20.7m of fresh capital in a novel issue tapping the French stock market.

The company is to obtain a listing on the Paris stock exchange next month, and has issued new shares for a placing with French investors.

The placing is led by Warburg France with the backing of a syndicate of French Banks.

Steetley, whose subsidiary Garon is one of France's leading aggregates groups, will place 4.75m shares with French institutions at 436p.

The issue is thought to be only the second pure equity offering on the French market since the crash of October 1987. Elf Aquitaine, the state-owned oil group, launched a FFr3.3bn rights issue in April, but other French companies tapping the market have either issued convertible bonds or sweetened their share issues with warrants.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Asprey §	fin	4.1	-	3.5	5.45	4.75
Avesco	fin	1.125†	-	0.75	1.125	0.75
BPB Industries	fin	7	Aug 18	5.5	10.75	8.5
BTP	fin	4.5	-	3.95	7	6.2
Budgens	fin	2.67	Jan 5	2	6.67‡	3.5
Caledonia Invs	fin	6.5	-	4.5	10	7
Courts (Furnish)	fin	3.17	-	3.15	5	4.82*
Crosby (James)	fin	2.5	-	1.4	3.5	2
Danae Inv Tst	fin	4.125	-	3.75	7.125	6.305
Dowty Group	fin	4.87	-	4.2	8	7
Greycoat	fin	2.5	Oct 2	2	4.5	3.6
Harmony Leisure§	fin	0.168†	Sept 22	0.14	0.168	0.14
London Secs	fin	1	Sept	0.5	1	0.5
Saville	fin	2.625	Sept 2	-	3.75	-
Stoddard Sekers	fin	1.95	-	1.75	2.5	2.25
Sutcliffe Speak	fin	2	-	2	2	2
TSB Group	int	2.65	-	2.58	-	5.24
United Industs	fin	1.8†	Oct 2	1.2☆	3	1.2
Vinten Group	fin	3.45	Oct 1	2.75	4.9	4
Vistec Group	fin	0.1☆	Aug 9	-	0.1	-
Walker & Staff	fin	3	-	2.5	3	2.5
Waverley Cameron	fin	0.7†	-	0.263	1	0.263♣

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ‡For 70 weeks. ☆For six months. ♣For 15 months. ‡ For five months.

Greycoat assets boosted by rise in property values

By Andrew Hill

GREYCOAT, the property development and investment group, increased its net asset value from 404p to 523p in the year to March 31, up 29 per cent on the back of increases in the value of West End office property.

The value of Greycoat's office investments in the West End and central London rose by 37 per cent during the year, and its City office portfolio by 12 per cent. London offices account for 82 per cent of the total value of Greycoat's properties.

The group's profits rose to £21.7m before tax, against £17.1m in 1987-88 and earnings per share increased 20 per cent to 23.4p (19.5p). Greycoat is recommending a final dividend of 2.5p making 4.5p (3.6p) for the year.

● COMMENT

Analysts estimate that Greycoat's shares, which dropped 9p to 473p yesterday, would stand at a 35 per cent discount to net asset value, were the key development properties revalued. That is wider than most property groups, and the discount could widen still further by the end of the financial year, when forecasts put the NAV at between 740p and 750p a share. The Finsbury Circus and Charing Cross developments are due for completion this year, and the company says negotiations for lettings are well-advanced: when formally announced they could push up the share price. In the longer term, Greycoat is nothing if not solid. Some slowing of the development programme after completion of the three current office projects is probably a good thing: at the moment, prices are high for new sites, and Greycoat can afford to wait. Profits, though a less reliable indicator of value than NAV, could reach between £24m and £27m before tax this year. The shares – on a prospective p/e of about 19 or 20 – are worth holding.

Danish counter-bid welcomed by BMT

By David Barchard

NYKREDIT, the Danish mortgage company, yesterday dealt a potentially fatal blow to the National Home Loans Corporation's bid for Business Mortgages Trust.

Nykredit, which already has an 18.2 per cent stake in BMT, is to offer 77p cash per share for the rest of the group, valuing it at £11.6m.

Mr Andrew Davison, BMT chairman, said yesterday that the board unanimously recommended shareholders to accept the offer.

However, the offer puts a damper NHL's hopes of making its first ever acquisition at a time when it is eager to diversify out of the residential property market.

Three weeks ago, NHL bid £10m for BMT after acquiring a 29.9 per cent stake, offering two new NHL shares for every three BMT. NHL yesterday refused to be drawn on the Nykredit offer. "We are considering our position," said Mr Kevin Milner, general manager for finance and development.

Nykredit said that it hoped that all existing BMT staff would remain with the company if its bid succeeded and that existing employment rights would be fully safeguarded.

This month BMT set the seal on its recovery by declaring pre-tax profits of £2.8m for the year to March 31, compared to a loss of £3.9m the preceding year which included provisions of £5.2m against bad debts.

Mr Lars Ole Wurts Nielsen, Nykredit general manager, said yesterday that his firm regarded BMT as a very good fit for its operations in the UK mortgage market. Nykredit established a London office a year ago and specialises in commercial lending, using Danish mortgage bonds.

Mr Nielsen said that the Bank of England, whose approval is required because of BMT's status as an authorised deposit-taker, and the Danish regulatory authorities had given their consent for the bid to go ahead.

Craton Lodge into red with £587,000 loss

By Ray Bashford

CRATON LODGE & Knight has been placed in a financial bear hug by the Soviet Union in its effort to break into the country's market for new product development.

The company slipped into the red in the six months to March 31, returning a loss of £587,000 compared with a pre-tax profit of £73,000 last time.

The directors said were planning a major reorganisation which would centre on disposal of an undisclosed stake in CLK Marketing Services International, the principal arm for contact with the Eastern bloc.

The board has omitted an interim dividend. It paid 0.7p last time.

Stena and Tiphook agree to talks with Sea Containers

By Andrew Hill and Kevin Brown

STENA, the Swedish ferry company, and Tiphook, the UK container rental company, have offered to talk with Sea Containers next Tuesday about their $824m hostile bid for the ferry and container group.

A letter sent to Sea Containers yesterday said they were "prepared to offer realistic and competitive pricing", but added "we do not believe the values of the alternative transactions described by you to the press are realistic."

Temple Holdings, vehicle for the joint bid, has also agreed to sign a standstill agreement, which would prevent the two companies from adding to the 7.1 per cent holding Stena has in Sea Containers. The length of the agreement would have to be negotiated by lawyers.

But Sea Containers' belligerent president, Mr James Sherwood, shows no signs of toning down his furious legal defence of the group.

As Temple's letter accepting Mr Sherwood's offer of talks was on its way, Sea Containers was charging Stena and Tiphook with circulating false statements "in a deliberate attempt to drive the market price of Sea Containers' common stock down". It has filed court papers in the US alleging violations of the 1934 Securities Exchange Act.

Temple calculated the value of Sea Containers at $56 a share earlier in the week on the basis of Sea Containers' amendments to its Securities and Exchange Commission filings in New York. But Sea Containers said yesterday that JP Morgan, advising Stena, had got its arithmetic wrong.

Sea Containers' shares have slipped back from more than $70 last week, to around $66 each, compared with Temple's offer price of $50 cash.

At a press conference in London, Mr Sherwood said Temple's valuation of Sea Containers at around $56 a share was "so far out of the ball park as to be totally absurd."

Mr Sherwood said the Sea Containers board would come up with a capital reconstruction or leveraged buy-out if Temple raised its bid to between $75 and $100 a share.

But he refused to put a precise value on the group, or to indicate at what point a defensive reconstruction or buy-out would be triggered.

"If Stena and Tiphook took over the company they would dismiss the entire staff of Sea Containers. They already have their own staff and they don't need two sets of staff even though ours are better," Mr Sherwood said.

Sea Containers is expected to give full details of its defensive proposals in around three weeks' time. Meanwhile, the company is sitting on a $75m paper profit on a 23 per cent stake bought in by one of the group's subsidiaries before the bid announcement. Next Tuesday's meeting will take place the day after the Bermuda Supreme Court begins a preliminary hearing into Temple's legal action against those subsidiary share purchases.

Caledonia doubles to £25.6m

By Edward Sussman

CALEDONIA INVESTMENTS, the investment group controlled by the Cayzer family, doubled pre-tax profits from £12.59m to £25.57m in the year to March 31. The previous year's figure was struck before an exceptional credit of £9.83m.

A final dividend of 6.5p raises the total by 43 per cent to 10p (7p). The increase, which exceeded analysts' expectations, helped move Caledonia's shares ahead 9p to 372p.

Mr Peter Buckley, chief executive, said Caledonia had continued to move forward cautiously, with an eye toward the long term, since the sale two years ago of most of its stake in British & Commonwealth Holdings, the financial services company. About 60 per cent of Caledonia's net assets of £494m remain in cash or B&C preference shares.

New investments in the past year included the purchase of a 6.4 per cent stake in Christies International, the art auctioneer, and the acquisition of a 45 per cent stake, for £3m, in Abacus Self Storage.

B&C's contribution toward investment income rose from £10.7m to £21.3m. Operating profit of trading subsidiaries was £1.63m, down from £1.72m, but this was skewed by the removal of Urquhart Engineering from the contribution following its sale.

Earnings per share rose to 19.56p, against 9.11p, excluding last year's exceptional item.

● COMMENT

Although Caledonia is controlled by an old family, analysts treat it like the new bank account on the block. Before 1991, there is still £268.1m to come from the redemption of B&C preference shares, but no one is quite sure where the one-time shipping fortune will land. Management is adamant that it will not be bullied by the markets into risking the family jewels on flashy, short-term investments. And with interest rates as high as they are, Caledonia is in no mood to move its cash prematurely. To date, investments such as Close Brothers and English & Scottish Investors are performing well, but most of the big decisions have yet to be made. Net asset value of 523p per share, against 500p a year ago, means the shares trade at a 30 per cent discount. With the long term the most important consideration to Caledonia, that is not likely to be significantly narrowed any time soon.

Increase in higher value sales lifts Asprey profits

By Philip Coggan

ASPREY, the Bond Street jeweller, recorded its ninth successive annual profits increase in the year to March 31, with the pre-tax figure rising 13.8 per cent to £18.25m.

The company said that last year's decline in the US dollar was offset by the increase in higher value sales. The New York store, on Fifth Avenue next to Tiffany's, improved its contribution. Interest receivable rose from £1.185m to £1.7m.

Turnover was £62.04m (£56.78m). After tax of £5.91m (£4.57m), earnings per share were 23p (21.31p). The proposed final dividend is 4.1p (3.5p), making a total of 5.45p (4.75p). The company is proposing a one-for-two scrip issue.

● COMMENT

Asprey's products may on occasion be ostentatious – like the briefcase made of gold and silver in imitation crocodile style - but its trading statements are models of reticence. This belies a profits record which illustrates that the "flash for cash" philosophy of Ratners is not the only way to succeed in jewellery. As the fine art market is currently proving, there are plenty of rich people around at the moment and the recent surge of the dollar and the oil price can only help Asprey's sales to American tourists. In recent weeks, the Asprey share price has been bolstered by its inclusion in the FT All-Share index, which brought in the indexed funds. Accordingly, the shares are on a hefty p/e of 15.5, assuming pre-tax profits of £21m this year, at yesterday's price of 418p, up 5p. Although Asprey is unlikely to suffer the travails of the rest of the retail sector, the rating looks high enough.

Adler close to selling Goode Durrant stake

By Ray Bashford

FAI, the Australian insurance company headed by Mr Rodney Adler, is believed to be at an advanced stage in negotiations to dispose of a 14.9 per cent stake in Goode Durrant, the industrial and financial company.

Mr Adler is expected to inform his London broker this morning from Australia whether the sale should go through.

FAI took the holding in September last year and there has been growing speculation that Mr Adler would sell it following the disposal earlier this month of the 13.2 per cent holding in Pearl Assurance.

Goode Durrant shares yesterday closed steady at 128p.

The company, which has cash reserves of in excess of £20m, is believed to have a break-up value of about 170p a share.

Budgens announces profits of £16.4m for 70 weeks

By Nikki Tait

BUDGENS, the supermarket group which was subject to an abortive £136m bid from another medium-sized food retailer William Low in late-April, yesterday announced pre-tax profits of £16.4m in the 70 weeks to April 29.

This compares with £13.5m in the previous 52 week period to December 26 1987 – the group's last full year – and £13.2m in the subsequent 53 weeks to January 1 1989. Sales in the 70 weeks rose to £381.5m, having reached £289m in the 53-week period. The company is in the process of switching from a calender to an end-April year-end.

The 70-week trading profit figure was £19.5m, comprising £18.5m from food retailing, £836,000 from discontinued activities, £377,000 from dividends received and £2.54m of property profits. On the minus side, central costs took £2.77m.

Net interest payable was £3.1m, compared with £2.15m in the previous 53-week period. This is after the capitalisation of gross interest of £878,000. Net debt at the year-end was around £21m.

Budgens split out comparable food retailing sales and operating profit figures for the years to end-April 1988 and to end-April 1989. Sales rose 9.6 per cent to £289m on this annual basis. The percentage gain is made up of 3.3 per cent inflation, 2.2 per cent from new space and 4.1 per cent from like-for-like growth.

Operating profit from food retailing was £14.5m against £12.2m, suggesting that margins rose from 4.8 per cent to 5.2 per cent. Tax for the 70-week period is £4.7m giving earnings per share of 14.02p. The final dividend of 2.67p net makes a total of 6.67p.

There is an extraordinary item of £1.36m. This includes a loss of £1.12m on disposal of the confectionery division, further costs associated with the former bid for Gateway of £530,000 and £492m of costs related to the Low takeover. This is offset by a £392,000 profit on sale of investment.

Attempting to unravel the bid's conundrums

Yesterday's figures from Budgens only compound the mystery surrounding the abortive bid for the supermarket group from fellow food retailer William Low two months ago, writes Nikki Tait.

Low announced a recommended offer for Budgens on April 21. The share exchange had an underwritten cash alternative of 154.2p. The deal was not greeted warmly and, embarrassingly, the sub-underwriting efforts flopped. A couple of weeks later, additional broking clout was brought in for a second attempt to sub-underwrite the new Low shares and the situation appeared to be repaired.

Then, on May 13, Low announced abruptly that the deal was effectively off. With the support of merchant bank adviser S.G. Warburg, Low said it could not recommend the bid to its shareholders.

The only explanation provided was that "differences in expectations about the financing" had become apparent. The Takeover Panel began, and is continuing, to investigate. All parties are sworn to silence.

Yesterday, Mr John Fletcher, Budgens' chairman, added only one further, guarded comment. When asked to put in writing its reasons for pulling out, he said, Low had suggested that "their perceptions of the profits of the business would not have been achieved."

The cost to Budgens' shareholders has been heavy. Its share price, which had wilted during 1988, rose almost 20p to 151p on the Low bid. When the Scots backed off, it slid 36p to 110p, and has recovered only a little. Shareholders have been unhappy - not least Brierley Investments, which has held a 10 per cent interest in Low for some time, but built up a holding of over 7 per cent in Budgens during the bid.

The affair has always appeared to involve two interlinked, questions. The first related to Budgens itself and how seriously awry its financial position might be.

The second was how, in a non-hostile situation, Low could actually put a bid for Budgens on the table – and thereby create certain expectations - only to decide subsequently not to proceed. With two reputable merchant banks involved – Warburg for Low and Kleinwort Benson for Budgens – it is difficult to understand why any information sought should not have been forthcoming. And if it was not, given no apparent time pressure, why did Low proceed?

The first question was at least partially answered yesterday. The figures, if far from pretty, contained no enormous surprises and were, moreover, both audited and unqualified.

On the critical balance sheet front, Budgens said borrowings averaged £27m over the 70-week period and will increase further in the current year in the face of the continued capital expenditure programme. It plans to spend £30m in in current year, against £44m in the previous 70 weeks. About £20m of that will go on seven new stores, and £10m on revamping some 25 existing stores.

The net effect, says Fletcher, could be average borrowings of £35m in the current 12 months – which sits beside capital and reserves of £36.4m – although the figure might come down slightly by the next year-end.

Analysts greeted the figures with an air of unsurprised gloom. "However good the trading performance, earnings will be dogged by debt and interest payable, plus a rising tax charge," commented one. "The former is a problem – they have to spend to develop the business, but that will hold profits back." As a result, current year estimates range around £13m pre-tax (inclusive of property profits) with earnings showing no enhancement on the calendar 1988 figure.

Critically, however, few pundits expressed much surprise at the borrowings level.

But this merely compounds the second mystery. Any substantial answer must await the Panel, which is excessively coy about saying how far it has progressed and declines to give any indication of the timetable. Given the delay, shareholders may be forgiven for wondering whether the matter has gone beyond the executive, and now involves the full Panel – together with sensitive merchant banking reputations.

In the meantime, the background to the deal remains a very grey area. It does appear that some exploratory discussions took place between principals in March, but that the deal was finalised relatively quickly in the April week during which it was announced. This was also the week in which the Isosceles bid for Gateway was emerging – which may or may not be relevant, given that Mr Fletcher made a bid for Gateway (then Dee Corporation) a year earlier and is a friend of Mr David Smith, Isosceles' chief executive, while Low shares Kleinwort with Isosceles.

It also seems that Budgens' financial picture as of April 1989 may not have been the issue. Even a reading between the lines of the few statements made to date suggests that projections into the current year and beyond are being blamed for the breakdown.

UK COMPANY NEWS

In a disappointing first half total costs have risen sharply to 74.7% of income

TSB Group declines 22.4% to £164.5m

By David Barchard

TSB GROUP yesterday announced pre-tax profits of £164.5m for the half year ending April 30. The figures were 22.4 per cent down on last year's interim profits of £212.1m and were described as poor by Sir Nicholas Goodison, group chairman.

In a generally depressing balance sheet, the most striking feature was a sharp rise in costs to £562.6m (£459.3m). Operating costs now stand at 74.7 per cent of income, well above those of all the other large clearing banks.

The ratio was described as "unacceptable" by Mr Don McCrickard, chief executive banking: TSB hopes to bring the ratio down below 65 per cent in the coming year.

Total lending by the bank grew from £11.38bn at the end of October to £12.85bn. Mortgage lending grew from £4.88bn to £5.11bn, and other personal lending rose in the six months from £2.42bn to £2.54bn. However corporate and commercial lending rose from £3.25bn in October to £4.19bn. Leased assets went up from £834m in October to £989m.

Total income for the half year was £752.6m (£700.6m) of which net interest income was £429.8m (£426.4m).

Banking profits were down from £123.2m a year ago to £110m. Profits for the TSB banks were £89.1m (£105.9m) and £20.9m for Hill Samuel (£17.3m).

Profits on related banking services were £17.5m (£20.4m) with UDT making £13.1m (£10.6m) and Trustcard £7.2m (£8.4m). The group's 196-branch estate agency operation made a loss of £3.8m (£800,000 profit).

Profits on insurance and investment services dropped from £50.4m a year ago to £44.7m, though profits at TSB Trust rose to £34.4m (£31.6m).

Commercial activities returned a profit of £9.8m (£10.1m) with Swan National contributing £4.5m (£4.2m); Noble Lowndes £3.8m (£4.7m); and Wescol, the group's shipping line, £1.5m (£1.2m).

Central interest payments on inter-group banking operations caused a loss of £17.5m (£8m profit).

Earnings per ordinary share fell by 23.1 per cent to 7p (9.1p), however the dividend per share went up by 10.5 per cent to 2.85p (2.58p). Dividend cover thus fell from 3.9 per cent to 2.6 per cent.

See Lex

Commercial side provides lift as Savills hits £6.5m

By Philip Coggan

SAVILLS, the chartered surveyor and estate agent, yesterday reported a 53 per cent increase to £6.52m in pre-tax profits for the year to April 30 1989 despite static figures in the residential division.

A strong performance from the commercial division, which now contributes 65 per cent of operating profits, was responsible for much of the increase. The £6m raised at the time of Savills' main market placing a year ago also boosted profits by pushing interest receivable to £553,000 (£15,000 payable).

The commercial division made profits of £3.87m (£2.52m) on turnover of £15.09m (£9.64m). Commercial property under management amounted to £1bn and the proportion of revenue earnt from professional fee income increased to 39 per cent.

The agricultural division increased profits to £1.27m (£940,000) on turnover of £7.6m (£5.93m). Savills sold some £198m worth of agricultural land last year, compared with £108m in the previous year.

The residential division reported profits of £824,000 (£822,0000) on turnover of £8.57m (£6.27m). Two new offices were opened during the year, in Bath and Hampstead.

Savills said that the expensive end of the property market was relatively immune to the effects of high interest rates.

After tax of £2.42m (£1.61m), earnings per share were 12p (9.1p). The final dividend is 2.625p for a total of 3.75p (1p).

● COMMENT

Savills is understandably keen to stress that most of its business is in commercial, not residential, property – even country house sales might start to dip if the UK plunges into recession. For the moment, the commercial market looks healthy although some (including the Bank of England and Savills itself) are worried about the debt levels of UK property companies. Foreign investment is helping prop up the London commercial market and the agricultural market is supported by the new-found popularity of blood sports amongst the moneyed classes. But with the contribution from interest receivable set to fall this year, and making prudent allowance for no more than break-even in the residential division this year, the group will do well to make £7.25m. The shares at 101p, down 4p, are on a prospective p/e of under 8, a fair rating considering the risks.

BTP rises 18% to £11.4m

By Vanessa Houlder

BTP, the specialist chemical and industrial group, yesterday announced an 18 per cent increase in pre-tax profits to £11.4m from £9.66m for the year to March 31.

It also announced the sale of its 50 per cent stake in DeSoto Titanine, a specialist manufacturer of coatings for aircraft, for £5.4m in cash. This sale was in line with BTP's strategy of withdrawal from the specialist coatings business.

The profits, which included a £1m exceptional property profit, were achieved on turnover of £97.1m, down from £107.9m. The net effect of acquisitions and disposals was to reduce turnover by £14m and operating profit by £700,000.

Mr Frank Buckley, chairman and chief executive, said that the results were particularly encouraging for a year of consolidation. A reinvestment programme was being undertaken mainly in the chemicals market, which would produce full rewards over the coming financial year. The group spent £5.2m on acquisitions and new plant in the past year.

Profits in the chemical division increased by 24 per cent to £7.55m. The industrial division reduced profits from £4.41m to £3.19m. Net interest payable fell from £1.19m to £774,000.

Earnings per share increased by 21 per cent from 10.88p to 13.21p. A final dividend of 4.5p has been recommended, making a total of 7p (6.2p) for the year, an increase of 13 per cent.

● COMMENT

Yesterday's disposal added yet more fuel to power BTP's restructuring exercise. It is pulling out of the industrial markets where it lacks sufficient clout in favour of moving further into niche chemical areas - exemplified by its flame retardant finishings business. This strategy is generally welcomed by analysts who feel the company is sharpening its image and playing to its strengths. That said, the main attraction of the shares is less the promise of sharp earnings growth than the prospective yield of 7 per cent. After yesterday's results, which were bang in line with expectations, the shares were unmoved at 146p. Assuming pre-tax profits of £12.5m this year, that puts them on a reasonable rating of 11.5.

Sales slowdown hits Courts

By Maggie Urry

FURTHER EVIDENCE of difficult trading conditions for furniture retailers came yesterday from Courts (Furnishers), which announced barely increased profits for the year to end-March.

Pre-tax profits were up from £10.04m to £10.28m, including property profits of £1.6m (£1.5m). At the interim stage, profits had risen by 16 per cent to £4.3m.

Mr Bruce Cohen, managing director, said that UK sales had slowed sharply in the second half and particularly in the fourth quarter. After a sales gain of 33.4 per cent in the first half in the UK, second half sales were up 9.7 per cent.

He said the current year had seen "a continuation and extension of the trends evidenced in the closing months". The group was now taking a very cautious view in the UK, he said.

Margins had been hit by the need to sell-off foam filled furniture which did not meet the latest safety requirements at reduced prices. Mr Cohen said this cost about £500,000.

However, overseas sales, which had risen by 8.5 per cent in the first half, improved 23.4 per cent in the second half. Difficult areas such as Jamaica and St Lucia had bounced back, Mr Cohen said.

The transfer to deferred profit reserve, which relates to credit sales mainly in the overseas stores, was £780,000 compared to the exceptionally high level of £3.1m in the previous year. The total stands at £17.4m which will come through to profits in the next two years.

Profits were also held back by a £1.6m rise in the interest charge to £3.9m. Gearing was 54 per cent at the year end, Mr Cohen said. Net assets, boosted by a property revaluation, currently stand at £70.2m or 319p a share.

Sales for the year were ahead 18.5 per cent to £146.41m. Earnings per share were 24.7p (24p) and a final dividend of 3.17p (3.15p) is proposed giving a total of 5p (4.82p).

● COMMENT

Courts has some cushions to ease the discomfort of its UK business, where the double effect of higher interest rates hitting sales and pushing up interest charges is severe. Volume seems to have been significantly lower in like-for-like stores, given the rate of expansion during the year. That expansion has slowed though there are still costs to be met in the current year. The foam furniture set-back is non-recurring though, and with the overseas stores doing better, the bank of deferred profits and the property base chipping in profits too, much of the inevitable fall in UK retailing profits should be made up elsewhere. Courts will be lucky to match last year's profits in the current year, though this prospect is discounted in a price so far below asset value.

Vistec at £1.12m for five months

By Clay Harris

VISTEC Group, the USM-quoted computer services and supplies company which emerged from the debris of F&H Group, yesterday reported pre-tax profits of £1.19m from continuing activities on sales of £11.9m for the period from December 5 to April 30.

A dividend of 0.1p will be paid on earnings per share of 0.86p. There are no comparable figures, but discontinued controls operations made £129,000 in the latest period against a £4.01m loss in 1987-88. The latter figure, and losses carried forward from previous years, were eliminated by a capital reduction approved by the High Court in March.

Vistec's unsuccessful bid for DDT Group, a computer maintenance contractor eventually bought by Apricot Computers, resulted in a £90,000 extraordinary charge.

Vistec also announced the purchase of Level V Distribution, a specialist in microcomputer UNIX systems integration and UNIX products and services, for up to £2m in shares. The initial payment is worth £300,000 with further payments linked to profits to June 30 1990. In the year to June 1988, Level V made pre-tax profits of £80,699 on turnover of £798,676.

Separately, Vistec said it had bought out earn-out rights from a previous acquisition, 01 Computers Group, for £85,000 in shares. Under the original terms, the earn-out could have been worth up to £750,000 in shares.

All round growth helps Dowty profits increase 23% to £79m

By Vanessa Houlder

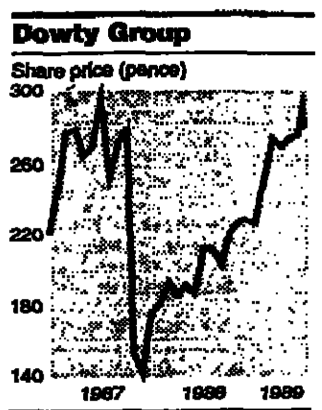
DOWTY GROUP, engineering and electronics company, yesterday announced a 23.4 per cent rise in pre-tax profit from £64.1m to £79.1m for the year to March 31. Turnover is up by 9.5 per cent to £684.1m (£624.8m).

Operating profits in the continuing businesses went up by 34 per cent to £79.9m (£59.5m) and the return on capital employed increased from 22.9 per cent to 26 per cent. Property profits contributed a further £5.8m.

The interest charge rose from £8m to £9m, after being contained by a strong cash inflow of £50.7m (£6.7m) and hedged interest rates. Borrowing at £92.2m was equivalent to gearing of 36 per cent (41 per cent) of shareholders' fund and since the year end, it has received £36.5m from the mining and industrial hydraulics disposals.

The results of the mining division and the industrial hydraulics business, which have been sold to their managements, were included for the first half year only.

The disposals resulted in an extraordinary charge of £17.7m after tax, which reflected a discount on net assets, trading results since September 1988 and disposal and other costs. Mr Tony Thatcher, chief executive, said that the businesses suffered not only from the weakness of the marketplace but also from uncertainty during the sales process.



The aerospace division increased operating profits by 21 per cent to £40.6m, reflecting an "excellent" contribution from North America and higher volumes on civil business, tighter costs control and improved product support activities in the UK.

The electronics systems division saw a 15 per cent profits growth to £10.8m after a turnaround in its electrics business which offset a weak performance by the components side.

The information technology division increased profits from £9m to £17.2m. The polymer engineering division pushed profits up by 49 per cent to £11.3m.

The order book in the continuing businesses increased to £662m (£591m) at the year end.

Earnings per share increased by 12 per cent to 21p (18.7p). A final dividend of 4.9p (4.2p) was recommended, giving a total of 8p (7p) for the year, an increase of 14 per cent.

● COMMENT

Dowty boasts - with reason - that the new management has wrought a sea change in the company's reputation. Certainly the sharp improvements in margins and return on capital have been well rewarded by an impressive re-rating. Until fifteen months ago, its perceived doziness and vulnerability to the weak dollar ensured that it underperformed the market. Since then, it has advanced to a premium rating of 11.5, assuming pre-tax profits of £95m this year. Yesterday, however, saw a slight dip in the share price from 277.5p to 269.5p, reflecting a hint of disappointment about the information technology division's results and the size of the property profits. Nonetheless, analysts remained stoutly enthusiastic about the shares' medium term prospects. It has a chock-full order book and - with the possible exception of the IT division - its businesses seem virtually immune to a downturn to the economy.

Platignum calls off Pegasus purchase

PLATIGNUM'S planned £100,000 acquisition of Pegasus Furniture has been called off, writes Christopher Parkes.

The deal was cancelled because "the information we were given was materially incorrect," Mr Stephen Quinn, chief executive of the pens, furniture and household goods group, said yesterday. Platignum had no further interest in the company, he added.

Pegasus, a Peterborough company specialising in flat-pack self-assembly furniture, with sales of about £4m, has been put in the hands of the receiver.

The deal would have marked the first acquisition by the former fountain pen specialist since it was the subject of a reverse takeover by Mr Stanley Cohen, who backed three of his private furniture companies into Platignum last March.

UK COMPANY NEWS

Vinten expands into Italy with £20m deal

By David Waller

VINTEN GROUP, a UK-based company which manufactures avionics and broadcast equipment, is expanding into Italy with the acquisition of the Manfrotto Group, a manufacturer of photographic and video camera mounts.

The purchase price is L45bn (£20m), which compares to Vinten's market capitalisation of £85m prior to the deal.

The transaction was announced yesterday as Vinten reported its figures for the year to the end of March. Pre-tax profits rose from £3.8m to £4.87m, an increase of 28 per cent, on turnover up 17 per cent to £37.89m, while earnings per share advanced by 29 per cent to from 11.5p to 14.9p.

The Italian acquisition is to be financed in part by the issue of shares to the vendors, and in part with the cash raised from a vendor placing. The placing – under which existing shareholders are to take up new shares on the basis of four for every nine held – will raise £14m, while the shares issued to the vendors will be worth £7m.

At the moment, Manfrotto consists of a group of ten family owned companies located in the North of Italy: these will be consolidated into one for the purpose of the acquisition. Collective turnover has risen from £7.96m in 1984 to £15.81m in 1988, while operating profits have climbed from £2.72m to £4.35m over the same period.

The figures for 1988 indicated a drop off in margins over the previous year, when the company made £4.17m on £13m turnover. This was blamed on a reorganisation of the group's manufacturing facilities; according to Vinten, figures produced by Manfrotto suggest that it has traded at record levels in the first five months of 1989.

Assuming the financial restructuring had taken place as at the end of last year, pre-tax profits for 1988 would have been £2.2m; at the same date, there would have been a pro forma deficiency of net assets of £5.3m.

Mr Bob Lawson, managing director, predicted that the deal would make a positive contribution to Vinten's earnings in the first year. He said that Vinten had sold Manfrotto's products under its own name for a number of years and that its business would make an ideal complement to its own broadcast division.

Acquisitive Waverley Cameron advances 25.7% to £2.71m

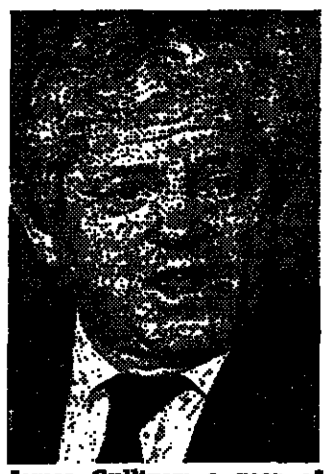
By John Ridding

WAVERLEY CAMERON, the stationery, office furniture and marketing services group, yesterday announced pre-tax profits of £2.71m for the year to March 31, a rise of 25.7 per cent.

The results are merger accounted to reflect the string of acquisitions since Mr James Gulliver took control of the group in February 1988. On a non-merger accounted basis, the figures show a marked recovery from losses of £176,000 for the 15 months to March 1988.

Turnover of the new group increased from £34.66m to £45.35m and fully diluted earnings per share rose by 11.5 per cent to 3p. The slower rate of increase reflects the issue of shares in February 1988 as part of a capital injection by Mr Gulliver's Sanda Investments.

There is a final dividend of 0.7p which gives a total for the year of 1p (0.263p).



James Gulliver: a year of considerable progress

Mr Gulliver, chairman, said that the company had "enjoyed a year of considerable progress. Three significant acquisitions were made ... which form the core of our development in line with our stated strategy."

The group now comprises three divisions – distribution, retailing and marketing services. Distribution, by far the largest, accounted for almost 75 per cent of profits. The two smaller divisions both increased their operating profits by over 50 per cent. Because of the larger share of these businesses, gross operating margins slipped from 31.1 per cent to 29.1 per cent.

Mr Gulliver said that all companies were reporting a higher level of activity than last year and that the prospects for growth were encouraging.

Hepworth sells offshoot for £7m

By Clare Pearson

HEPWORTH, the building, home and industrial products group, has raised £7m through the sale of the electronic security division of Henderson Group, the doors and ladders company it bought in May 1988.

The division contributed just £400,000 to Hepworth's pre-tax profits of £86.31m in 1988. Its Swiss, US and UK operations are being sold separately with Securitas Technology, part of Group 4, the big European security company, taking control in the UK.

Hepworth, which defeated a rival bid for Newman Tonks, the door controls and building supplies group, to buy Henderson for £85m, said the security division had not fitted in with the rest of its operations.

It also announced the appointment of Mr Brian Powell, divisional director with responsibility for home products, to the main board. Mr Powell joined Hepworth 14 months ago from GEC.

At Hepworth's annual meeting in May, Mr Sinclair Thomson, chief executive, said high interest rates were hitting its house building products side more seriously than expected. But other operations such as the industrial doors division were above budget.

Controls breakdown puts Harmony Leisure in red

By Clare Pearson

HARMONY LEISURE Group, USM-quoted pub and restaurant operator, blamed a breakdown of financial controls, related to the loss of key personnel, for a pre-tax loss of £127,000 in the year to end-March.

In the second half the company sustained the departure of the finance and operations directors, Mr Bob Halsey and Mr Geoffrey Rout. In addition a £740,000 refurbishment programme at five of the properties caused disruption.

However, Harmony is proposing a dividend of 0.168p (0.14p) for the year. It said the three pubs most affected by the second half disruption were now trading in line with budget and group turnover for the first three months was showing a 27 per cent increase.

Turnover during the year was £8.17m (£6.19m). After a tax charge £70,000 (£90,000 credit) the loss per share came out at 0.22p (earnings 1.52p).

United Inds springs up to £2.96m

By Edward Sussman

UNITED INDUSTRIES, the West Midlands-based spring maker, steel stockholder and processor, recorded pre-tax profits of £2.96m on turnover of £40.4m in the year ended April 1.

Last year the company, which was created in December 1987 from the merger of Ratcliffe Industries and United Spring & Steel, changed its year end from September 30 to March 31, making year-on-year comparisons difficult. But using the 12 months ended April 2 1988 as a base, pre-tax profits rose 77 per cent from £1.67m on turnover of £35.98m.

Mr John Cowen, chairman, said all three of United Springs' divisions which had been recording losses were now profitable. Turbo Tools, Brierley, Collier & Hartley and British Springs swung to a profit of £622,000, against a loss of £207,000 in six months to April 2 1988.

In the cutting tools division, sales to the government slipped as road repair programmes waned, the company said, but orders were up in the general engineering, aerospace and defence industries. The division saw pre-tax profits of £669,00 on turnover of £5.8m.

Earnings per share reached 5.92p (5.72p), and a final dividend of 1.8p makes a total of 3p.

Matthey chief emoluments

Mr Eugene Anderson, chief executive of Johnson Matthey, saw his total emoluments rise from £213,843 to £588,537 in the year to end-March 1989, according to the company's annual report. However, within this figure recurring emolument increased only marginally from £213,843 to £226,265. The balance was made up by a non-recurring figure of £362,272.

TGI to raise £5.2m via share issue

By Edward Sussman

TGI, the audio and consumer electronics company, is to issue 3.27m ordinary shares to raise £5.2m towards reducing its borrowing.

The group, which raised about £8.5m when it came to the main market in January 1988, said its debt stood at some £4.8m. Earlier this year, TGI raised £2.04m through a share issue to help finance the acquisition of the Audix companies, a maker of public address and broadcasting equipment.

The latest issue, representing about 18 per cent of enlarged equity and placed by Albert E Sharp, will be offered to shareholders on a basis of 18 shares for every 100 held, at a price of 165p.

TGI directors, the SUMIT group and the Comet group, who together hold 45.7 per cent of the ordinary shares, said they would not exercise their options for the new issue.

Caffyns' shares rise as Brierley takes stake

By Ray Bashford

SIR RON Brierley, the New Zealand businessman, has purchased 23.6 per cent of the ordinary shares in Caffyns, the Sussex-based motor dealer, through a three-pronged attack.

On Wednesday, IEP Securities, Sir Ron's UK investment vehicle, acquired the 12 per cent holding of Allied Partnership, the building services and plant hire group, a 5.8 per cent stake from Mr Colin Giltrap, a New Zealand car distributor and the remaining 5.8 per cent through the market.

The two parcels changed hands at 600p per share compared with the market price of 488p prevailing at the time of the transactions on Wednesday. The shares yesterday rose a further 42p to 600p following confirmation of the transaction.

Caffyns' property holdings in the south east of England are believed to form the basis of a net asset backing of between 800p and £10.

Sir Ron Brierley: acquired 14.7% of voting rights

Under Caffyns' two-tier share structure, the 23.6 per cent stake gives Sir Ron voting rights over 14.7 per cent of the capital.

In addition to the 3.3m ordinary shares, Caffyns has 2m second preference shares. Each of the two categories of shares has an equal voting weight.

Caffyns is firmly in the control of the Caffyn family which owns all of the preference capital and 26 per cent of the ordinary shares, accounting for a 54 per cent voting block.

IEP's rapid move to take such a large slice of the capital inspired speculation that it might be a prelude to a bid for the company which operates in the same business as Tozer Kemsley & Millbourn, the Brierley group's most successful UK investment.

Mr Alan Caffyn, chief executive, said he was "not really very worried" by the appearance of Sir Ron on the register.

He believed the family holding would be a major obstacle to a takeover. He added that Austin Rover, which accounts for about 60 per cent of Caffyns' sales, might object to Tozer Kemsley & Millbourn acquiring further outlets through the takeover of the company.

Caffyns returned weak results for the year to March 31, with pre-tax profits up 6.5 per cent to £2.06m. Mr Caffyn said that he expected a softening of motor vehicle markets during the current six months as increased interest rates slow demand.

Noble and Lund to sell its founding Gateshead company

By Nick Garnett

NOBLE AND LUND, the engineering and furniture group assembled since 1985 by a Eurobond dealer, the shares of which have been suspended since March, is selling the machine tool business which gave the group its name.

The Noble and Lund business, which makes specialist heavy machines, in Gateshead is being sold to FMT, the Brighton-based manufacturer of machining centres and customised manufacturing cells.

No price has been announced. FMT said the deal was part of a £10.5m investment programme which included the purchase of four acres of land next to its Brighton plant.

FMT was formed last year as a management buy-out of the former KTM machine tool company from Vickers. The machine tool industry expects FMT to seek a stock exchange listing within three to four years.

Noble employs 80 on a 15-acre site in Gateshead and had sales in the twelve months to December of £7.5m. Mr Mike Bright, chairman of FMT said it was intended to keep the site and increase employment. Some of FMT's technology would be transferred to the site which would also begin making some FMT machines designed for the aerospace industry.

Noble and Lund has been a quoted company since 1947. In 1985 it was bought by Mr Terry Galgy, a Eurobond dealer, who has since returned to the City.

Earlier this year, Mr Ross Martin, a New Zealand investor and Mr Peter Williams announced they were planning to reverse another company, Theseus Investments into Noble & Lund. In March, however, this plan was shelved when accounting errors were found in a Noble subsidiary and the shares were suspended.

Avesco surges to £5.37m and announces £13m rights

By John Ridding

AVESCO, supplier of equipment to the television and video industries, yesterday announced a 68.8 per cent increase in pre-tax profits to £5.37m for the year to March 31, and a £13.2m rights issue to repay debts and fund further expansion.

The results, the first since the company joined the main market in July 1988, showed turnover up from £16.01m to £24.78m. Fully diluted earnings per share rose by 91 per cent to 10.3p and there is a full year dividend of 1.125p (0.75p).

The results included two acquisitions made during the year. The remaining 35 per cent of Spaceward, a supplier of computer graphics, was bought in November and Videologic, a software designer, was bought in February.

As expected, Videologic made small losses and, according to Mr Richard Murray, chairman, "the bulk of growth was organic."

Mr Murray said strong performances across the group's various businesses reflected the buoyancy of demand in the broadcasting and commercial video sectors.

The products division, which gained the two acquisitions, was responsible for all of the growth and increased profits from £1.9m to £4m. The services division saw a slip in profits from £1.2m to £1.1m.

The one-for-four rights issue is priced at 125p per share and is being underwritten by Charterhouse Bank. Yesterday the share price closed down 5p at 145p.

The funds will be used to repay debts of £3.79m and to cover deferred acquisition payments. Approximately £5m will be available for expenditure on acquisitions and investments.

The company is currently involved in legal proceedings concerning an alleged patent violation by one of Spaceward's subsidiaries. Mr Murray said Avesco was aware of the case at the time of acquisition and had consequently inserted a clause which allows the subsidiary to be sold back to the vendor for a nominal fee should the subsidiary lose the case.

● COMMENT

Although it is questionable whether viewers will benefit from the plethora of programming which will result from thederegulation of TV, there is little doubt that suppliers of broadcasting equipment will be able to cash in. Avesco, for one, has found valuable niches in both the broadcasting and corporate video markets and, as a result, has seen profits increase ten-fold since 1984. The current year will see a relatively slow first half as orders and production start up for a new range of products, but the benefits should show through in the second half. For the year as a whole, pre-tax profits of £7m should be reached, placing shares on a fully diluted prospective multiple of 15. There are obviously risks with a relatively new company and a host of new products, but its track record and the prospects for its markets suggests the rights should be taken up.

London Securities rises 48% and calls for £23m

By Gary Evans

LONDON SECURITIES, property and investment management concern, yesterday reported a 48 per cent jump in 1988-89 profits along with plans to raise £23.5m, net of expenses, via a rights issue of convertible preference shares.

The company also announced that, conditional upon the rights issue proceeding, it will pay £6.68m in cash to acquire a 29 per cent stake in Clarke Nickolls and Coombs, the listed property company, from Tiphook Associated Finance. In addition, a further £75,000 is payable in respect of interest foregone for the period from exchange of contracts to completion.

Explaining the reasons for the rights, Mr David Pearl, the chairman, said the board considered that the capital base of the company should be strengthened. The proceeds would be used to finance the acquisition, reduce borrowings and increase working capital thus facilitating a continuation of the group's expansion.

The issue is of 24.26m cumulative redeemable convertible preference shares of 25p each, with shareholders invited to subscribe for two convertible preference shares for every five ordinary held, at a price of £1 per share.

The convertible preference shares will pay a dividend of 8.25p net per share, representing a gross yield of 11 per cent on the issue price of £1. The issue has been underwritten by Rothschilds.

Group pre-tax profits advanced from £4.21m to a record £6.23m in the year ended March 31. Earnings per 15p share were 7.1p (7.6p) based on the historical tax charge or 6.8p (5.2p)on a full charge. Tax took £1.98m (£177,000).

Mr Pearl said that with carried forward tax losses now exhausted, earnings per share did not fully reflect the growth in profitability. The dividend however, is being doubled to 1p.Net tangible assets per share grew from 40.6p to 44.4p in the year.

The chairman predicted that next year would be another one of aggressive expansion.

COMPANY NEWS IN BRIEF

Jas Crosby profits leap to £4m

THE buoyancy of the housing market in the north west of England was illustrated yesterday by James Crosby Group, the Cheshire-based housebuilding and property development company.

In the year to end-March, pre-tax profits leapt to £4.12m (£1.74m) on turnover ahead 89 per cent to £16.99m. However, Mr Michael Burgess, chairman, warned that the next 12 months would be more difficult.

Earnings per 10p share were 24.27p (14.3p), and the proposed final dividend of 2.5p makes 3.5p (2p) for the year.

Imtec losses near £3m mark

Imtec Group, the USM quoted concern that manufactures and markets micrographic equipment, suffered losses of £2.85m pre-tax for the six months ended December 31 1988. This is compared with £1.64m for the whole of the previous 12 months.

The directors, however, stated that the group had been restructured into three profit centres, had rationalised its development, production and accounting activities and for the four months to April was showing a modest surplus.

Turnover for the first half amounted to £4.67m (£11.12m for the 12 months - group changed the year end from June to December) and there was a gross profit of £326,000, against £2.19m.

There is no dividend - the last payment was in 1985.

Speakman expands 15%

Sutcliffe Speakman, the Lancashire-based activited carbon, solvent recovery and chemicals group, lifted taxable profits 15 per cent to £1.86m in the year to March 31.

Directors said that the benefits of the substantial investment programme at its carbon plant at Leigh should be seen in the second half of the current year.

Turnover expanded 58 per cent to £43.76m (£27.64m). Associated companies put in £43,000 (£33,000), while interest charges took more at £985,000 (£330,000). A same-again final dividend of 2p is payable from earnings of 7.6p (8.1p) per share.

Thos French stake to change hands

A 22 per cent stake in Thomas French, the curtain styling and home improvement products group, is set to change hands. The stake currently belongs to 3i, the investment institution, which indicated that it has found a buyer for the 2.66m shares at 110p each.

Under the terms of a pre-emption agreement dating back a number of years, 3i is obliged to offer the stake to the French family, which already controls 40 per cent of the company.

Mr Thomas French said that his family was considering whether to take the holding but in the meantime refused to disclose the identity of the buyer lined up by 3i.

He said he was not unduly worried by the identity of the buyer.

Cable and Wireless Jamaican deal

Cable and Wireless, the international telephone operating group, is paying £27m for a further 20 per cent stake in Telecommunications of Jamaica.

The deal with the Jamaican Government, which controls 20 per cent of TOJ, gives Cable a total holding of 59 per cent.

Cable said that it expected to see rapid growth in the Jamaican telephone infrastructure over the next five years, with the installation of an advanced digital system.

Dogbolter beer about to spread to rest of UK

By Graham Deller

"WE ARE going to firkinise the UK." So said Mr Ian Rock, a director of Midsummer Leisure, the public house and snooker club group which took over the Bruce's Brewery chain in March 1988.

Bruce's, famed for a selection of traditional pubs in London all bearing the "Firkin" banner, and its heady Dogbolter beer, was founded by Mr David Bruce in 1979.

Speaking at the Goose & Firkin in Southwark, London, the original Bruce's outlet which is set to celebrate its 10th anniversary on July 18, Mr Rock said that following the success of the Flamingo & Firkin in Derby, and the opening of two more pubs in London next month, the group was planning to expand nationwide.

To the accompaniment of Frankie Flame on the piano and David Bruce cavorting in red tights and a fluffy goose outfit, Mr Rock said that Midsummer was effectively relaunchingthe Bruce's concept with a £100,000 promotional campaign.

And the goose? "They just wheel me out on occasions like this," he honked.

Redemption Notice

European Investment Bank

13% Bonds Due 1996

NOTICE IS HEREBY GIVEN, pursuant to the Fiscal Agency Agreement dated as of August 31, 1984 under which the above described Bonds were issued, that European Investment Bank has called for redemption on August 31, 1989 $25,000,000 principal amount of said Bonds at the redemption price of 100% of the principal amount thereof, together with accrued interest to August 31, 1989. The serial numbers of the Bonds selected for redemption are as follows:

COUPON BONDS
(All in $1,000 denomination)

3	1535	3027	4418	6048	7522	8923	10327	11965	13330	14804	16284	17749	19198	20880
6	1538	3039	4428	6051	7525	8935	10333	11968	13333	14825	16287	17752	19219	20883
15	1541	3042	4431	6054	7537	8947	10336	11972	13345	14831	16290	17767	19223	20895
21	1544	3045	4434	6060	7546	8956	10342	11975	13351	14834	16308	17770	19229	20898
27	1550	3051	4437	6069	7550	8963	10354	11978	13366	14837	16314	17785	19232	20904
38	1559	3054	4443	6088	7556	8978	10366	11981	13369	14846	16320	17791	19247	20910
45	1565	3063	4446	6103	7559	8996	10400	11984	13372	14868	16323	17800	19256	20919
48	1568	3067	4449	6109	7562	9008	10403	11987	13385	14877	16333	17813	19268	20925
61	1574	3073	4464	6112	7568	9014	10406	11990	13391	14883	16339	17816	19281	20932
64	1577	3076	4476	6115	7580	9017	10421	11996	13394	14889	16345	17825	19302	20950
79	1580	3085	4486	6118	7586	9020	10437	12002	13400	14895	16348	17828	19326	20956
85	1589	3100	4498	6127	7606	9033	10446	12005	13403	14907	16351	17837	19345	20965
91	1599	3106	4510	6134	7611	9036	10458	12011	13409	14910	16357	17849	19351	20971
94	1608	3112	4513	6173	7620	9045	10473	12014	13421	14920	16360	17855	19354	20977
100	1611	3118	4516	6176	7623	9054	10476	12026	13427	14929	16363	17874	19360	20986
103	1617	3131	4528	6182	7626	9057	10479	12030	13430	14935	16369	17877	19366	20999
106	1620	3134	4559	6185	7632	9060	10485	12045	13433	14944	16375	17901	19372	21008
109	1623	3137	4562	6198	7656	9066	10504	12048	13446	14950	16378	17904	19403	21017
140	1629	3140	4583	6204	7659	9072	10510	12051	13449	14965	16394	17907	19409	21020
155	1638	3146	4598	6210	7666	9082	10513	12057	13455	14981	16403	17910	19412	21032
181	1641	3149	4602	6222	7675	9085	10516	12066	13470	14990	16406	17919	19415	21035
189	1644	3152	4614	6234	7681	9088	10525	12078	13473	14993	16409	17944	19418	21051
198	1651	3170	4629	6240	7684	9091	10528	12084	13479	14999	16412	17947	19424	21063
207	1654	3176	4647	6250	7696	9094	10531	12094	13482	15026	16418	17953	19433	21075
210	1684	3189	4656	6256	7702	9100	10543	12097	13488	15029	16421	17956	19442	21078
216	1687	3195	4663	6259	7708	9103	10549	12112	13491	15039	16436	17962	19445	21087
219	1702	3204	4666	6265	7717	9106	10565	12115	13497	15048	16439	17965	19448	21090
225	1721	3210	4669	6292	7723	9112	10577	12118	13500	15051	16442	17967	19451	21093
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64730	66223	67898	69567	71121	72811	74493	76177	77816	79468	80996	82714	84500	86111
64733	66232	67907	69570	71127	72817	74506	76181	77822	79470	80999	82720	84509	86117
64743	66247	67913	69577	71130	72827	74514	76193	77825	79473	81005	82727	84521	86126
64746	66256	67922	69580	71133	72830	74517	76199	77828	79498	81021	82751	84539	86129
64749	66259	67932	69586	71142	72833	74520	76223	77832	79504	81033	82754	84542	86157
64764	66275	67938	69592	71176	72839	74548	76226	77838	79525	81042	82760	84545	86160
64785	66284	67941	69601	71182	72857	74557	76232	77841	79531	81061	82772	84548	86163
64791	66287	67953	69604	71185	72863	74563	76239	77844	79537	81064	82785	84552	86172
64801	66293	67977	69610	71188	72869	74575	76245	77847	79550	81072	82797	84576	86181
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64807	66326	67996	69622	71200	72897	74591	76251	77865	79556	81097	82821	84588	86187
64810	66342	67999	69638	71206	72900	74597	76257	77877	79559	81124	82836	84591	86209
64819	66345	68002	69641	71215	72903	74600	76260	77883	79565	81130	82846	84600	86215
64822	66348	68005	69665	71228	72912	74603	76284	77886	79568	81134	82849	84613	86221
64828	66357	68008	69671	71231	72921	74627	76293	77896	79574	81137	82867	84616	86227
64865	66360	68014	69674	71234	72927	74630	76296	77902	79577	81140	82870	84622	86233
64868	66372	68020	69683	71237	72933	74636	76303	77914	79583	81152	82882	84628	86236
64880	66378	68026	69692	71246	72937	74664	76306	77926	79586	81176	82885	84634	86239
64892	66390	68032	69696	71258	72946	74679	76315	77935	79595	81179	82894	84637	86245
64895	66403	68048	69705	71267	72949	74682	76330	77941	79598	81182	82901	84649	86264
64898	66415	68060	69708	71270	72955	74685	76342	77944	79602	81207	82907	84652	86267
64904	66418	68072	69711	71273	72958	74700	76348	77951	79626	81222	82910	84658	86273
64913	66421	68078	69720	71279	72979	74703	76351	77957	79638	81225	82913	84661	86279
64923	66427	68081	69728	71301	72988	74716	76364	77966	79641	81240	82965	84664	86282
64941	66430	68093	69732	71304	72994	74731	76367	77969	79650	81243	82974	84671	86285

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On August 31, 1989 there will become due and payable upon each Bond selected for redemption the said redemption price, together with interest accrued to August 31, 1989. Payment of the redemption price of the Bonds to be redeemed will be made in such coin or currency of the United States of America as at the time of payment is legal tender therein for the payment of public and private debts thereon, upon presentation and surrender of said Bonds, with all coupons appertaining thereto maturing after August 31, 1989, at the holder's option and subject to applicable laws and regulations at the main offices of Caisse d'Espargne de l'Etat and Citicorp Bank (Luxembourg) S.A. in Luxembourg, Citibank, N.A. in London and Deutsche Bank AG in Frankfurt am Main.

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For EUROPEAN INVESTMENT BANK
CITIBANK, N.A.
as Fiscal Agent.

June 30, 1989

THE PROPERTY MARKET

Paul Cheeseright considers the prospects for investment after 1992

Building up to the single market

Don't leave your common sense behind at Heathrow Airport, admonished Miles d'Arcy-Irvine as he considered the prospects for property investment in the European Community.

On the face of it, there will be glittering opportunities, always assuming that by 1992 there will be an open market stimulated by the free movement of goods, services and capital. The vision is one of increased trade and economic growth bringing in its train a new demand for property.

Mr d'Arcy-Irvine, who has been active on the continental Europe market for 20 years and is chairman of Shaftesbury Investments, says the British developer has advantages in this market. He outlined them, with his cautionary note, this week at an ICC conference: Europe 1992 – the property investment market.

They included the fact that English is a common language. He noted there have been five fat years in the the main investment markets and this has affected judgment. He suggested that UK developers had been working in a technically more advanced market and had staff trained to a higher level than their continental counterparts. He observed that developers would have access to larger, less regulated capital markets.

But, leaving aside any discussion of whether the EC will meet its 1992 target, there is a host of pitfalls, as Mr d'Arcy-Irvine acknowledged, for any investor. These pitfalls are the same as they have been for decades and they have not been addressed in the programme for 1992.

"Not many politicians bother about bricks and mortar," Paul van Romunde, director of Rodamco, the open-ended investment fund based in the Netherlands, told the conference. "They are there. They don't move. There is not much political interest in it."

The result has been that, except indirectly, there is no push for changes which would create an EC property market. Mr van Romunde noted that there are divergences of practice even in the relatively simple matter of deciding at what time a property agreement becomes binding.

In the UK, contracts have to be signed and exchanged by those involved in a deal. In the Netherlands, an oral agreement is binding. In France, Germany and Spain, contracts have to be exchanged in front of a notary public, presumably because it is thought necessary that a third party decides whether a deal is valid or not.

There is a plethora of tax regulations. The disparities in the national VAT rates is a matter of political contention, but in property the problems also include the different levels of stamp duty or transfer tax.

Feed in legal differences, language differences, currency fluctuations and interest rate disparities, a mixture of local planning practices and technical building codes, and the gross imperfections of the market become clear. Sorting out a unified approach to property transactions is, in Mr van Romunde's view, a matter for 2002 rather than 1992.

Nevertheless, the propaganda for 1992 has heightened interest in investment across European borders and, on the British side and among developers and surveyors in particular, a desire to extend the years of plenty has lifted eyes to narrowing yields and rental growth across the water.

The attraction now is the same as it always has been – the desire for diversification. Given that property returns tend to move in cycles and the cycles move at different pace in different countries, diversified investment can spread risks and even out rewards.

But the search for diversification abroad has produced its own horror stories and, among institutions, it is approached with the utmost caution. Property investment abroad is not generally a high priority for fund managers.

Sun Alliance Group Properties have had investments abroad for 200 years. Michael Dew, managing director of its £2.2bn portfolio spread over 24 countries, urged the ICC conference delegates to stick to the markets they know best. Certainly a knowledge of rents and vacancy rates is just not enough to understand what drives a particular market.

Short of building up expertise in local markets, whether individually or in joint ventures with foreign partners, the easiest way into the wider European market is probably through specialist funds. This sector shows every sign of growing.

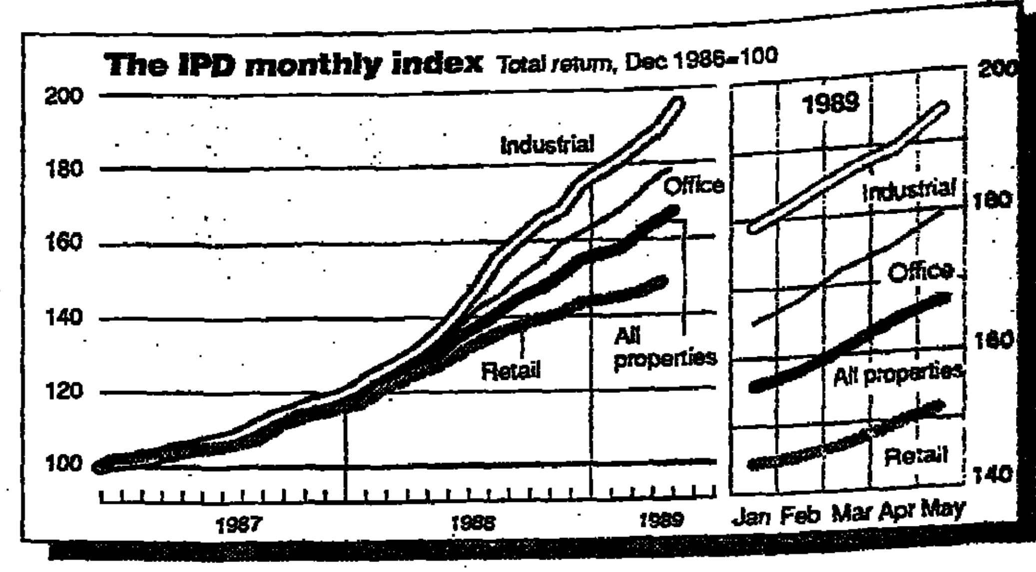
According to Michael Bamber, chief executive officer for the mainland Europe operations of Richard Ellis, chartered surveyors: "Wereldehave and Rodamco property funds have been the leaders but other groups, notably the Spanish, French and Belgians, have become increasingly interested in developing similar funds throughout the Community." How these funds are established depends on local tax implications.

For developers, there is, of course, no question of acting by proxy. Even if they come to terms with the vagaries of the local markets, they will still be thrust back on the problems of location and the timing of their projects. But Mr d'Arcy-Irvine believes there are sectors of opportunity.

Offices in central locations using the latest technical devices for cabling and so on – not yet widespread – are one area. Economic growth should expand the need for distribution centres. Retail property development has not been as extensive in continental Europe as in the UK. And, noted Mr d'Arcy-Irvine, there is scope for new products like business parks.

The opportunities for developers may change but, as Mr Dew observed, there is nothing new in the situation for long-established investors. The conditions influencing cross-border property investment are unaffected by the hopes and fears of other sectors for 1992.

Correction: The lines on the chart headed "City of London offices" in last week's Property column were mislabelled. The rising line should have been marked "Newly available" and the falling line "Take up."



Still showing strength

TOTAL RETURNS on the property market for the year to May were 28.3 per cent, according to the latest monthly index of the Property Investment Databank.

Although this suggests that the market has been slowing down since last January, the rate of growth over the last 12 months is still higher than the year to May 1988. Clearly there is strength still in the market.

Significantly, in the light of the Government's attempts to curb consumer spending, confidence appears to be reviving in the retail sector, where the IPD has tracked over the quarter to May an increase in capital value growth and a slight firming of yields. The total return in May was 1.3 per cent and for the year to May it was 18.5 per cent.

But the strongest growth has been in the industrial sector, where the rate of rental growth appears to be accelerating outside London, although yields have been falling slightly faster in the south east.

Total returns for industrial property were 44.3 per cent in the year to last May, 6.6 per cent in the quarter to May and 2.6 per cent in May alone.

But on a yearly basis the rate of growth for industrials has slackened slightly just as it is is continuing to do in retail and office property.

For offices, according to IPD, the current net yield has been at its lowest level for 16 months.

The total return from offices in the year to May was 35.7 per cent and for the month of May 2.3 per cent, which takes it back to the level of last March.

On a running quarterly basis, office returns have started to move up again.

INTERNATIONAL PROPERTY

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Can. $125,000,000 11¼% Notes due 1994

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The Notes will not be stamped or exchanged as a result of the change of name and will remain listed on the Luxembourg Stock Exchange under the former name followed by an indication of the new one.

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DATED: JUNE 30th, 1989

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Registered number: 1762532.
Nature of business: Manufacturers of Flat Pack Furniture.
Trade classification: 9.
Date of appointment of joint administrative receivers: 16 June 1989.
Name of person appointing the joint administrative receivers: Platignum plc.
JOHN FREDERICK POWELL and CHRISTOPHER JOHN HUGHES
Joint Administrative Receivers
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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

COMMODITIES AND AGRICULTURE

Search continues for coffee pact consensus

By David Blackwell

THE INTERNATIONAL Coffee Organisation's executive board will today continue to look for a consensus on extension of the coffee agreement.

The board met yesterday in advance of the full council meeting on Monday, when producer and consumer delegates will vote on two proposals to prolong the pact beyond the end of September. But delegates are so fundamentally divided that there is little hope that either proposal will attract sufficient votes for acceptance. The board is working on a compromise proposal to enable the pact to survive.

Yesterday the price of coffee on the London Futures and Options Exchange (Fox) fell sharply on reports that the board was considering an early suspension of export quotas if Monday's vote ended in deadlock. The September robusta contract touched £964 before recovering to close just £1 down on the day at £1010 a tonne.

Traders have been keenly watching for any developments at the ICO. Any scent of optimism now appears to have evaporated – but traders are still hesitant given the ICO's track record of last minute solutions to its problems.

The board yesterday agreed that the pact should be extended for two years, but could come to no agreement on economic provisions. Some countries – Colombia included – maintain that if there is no agreement with quotas, then the free market prevails, and they do not want to continue other provisions, such as promotion and stock verification. The export quota system, by which the ICO has tried to stabilise prices, is the main economic provision, but other countries believe that the subsidiary economic provisions are worth while.

Only last week, ICO indicator prices fell to a level which triggered a 1.5m bag cut in the export quota for arabica coffee. The cut is scheduled for the July-September quarter.

Monday's voting session is a resumption of an adjourned special meeting called earlier this month. Brazil, the biggest producer, and Colombia were hoping that postponing the vote would serve to concentrate minds, particularly given the steep price fall since the talks collapsed, so that a last minute deal could be reached.

Mr Jorio Dauster, head of the Brazilian Coffee Institute, said earlier this month that the agreement was not yet dead – but it was in a deep coma.

LME silver 'dies of natural causes'

By Kenneth Gooding, *Mining Correspondent*

THE LONDON Metal Exchange stopped trading silver yesterday and there will be few regrets. "The silver contract died of natural causes and there will be no requiem mass," commented Mr Michael Brown, the LME's chief executive.

This was his way of indicating that the LME's silver contract has been little used since early-1980 when an unsuccessful attempt was made to corner world silver supplies. LME traders suffered big losses at that time.

Silver was the only precious metal traded on the LME, a reflection of its wide industrial use.

In recent years changes have been made to the contract's size and there was a switch from sterling to dollars in the currency denomination. But interest remained minimal in the face of competition from the London Bullion Market.

At the end of last week the LME still had nearly 8m troy ounces of silver left in its stocks, worth about $42m at current prices.

Mr Brown said the silver which is suitable will be transferred to the London Bullion Market's stocks and other metal will "rapidly be consumed."

US wheat shows signs of stress

By Nancy Dunne in Washington

DESPITE HEAVY spring rains in many of the crop growing areas in the US, signs of stress have begun to emerge in the wheat-growing area of the Great Plains.

Mr Kris Aase, a soil scientist for the US Agriculture Department's research service, said that after two dry years, this spring's rains were heavy, but the June rains – normally the heaviest of the year – have failed.

The Agriculture Research Service is urging farmers in the area - which includes the Montana Plains, large parts of North and South Dakota, Northeastern Wyoming and the Northern tier of Nebraska – to change their crop rotation methods to boost both income and production.

Farmers in the Plains states have traditionally idled their fields every other year to allow extra time for the soil to soak up moisture. However, after a six-year study, the ARS has concluded that the fallow-crop sequence is no longer necessary if farmers use other conservation practices to trap snow and reduce evaporation.

Mr Aase said farmers could earn up to $9.60 more per acre at today's prices by growing crops annually. The most profitable crop sequence, according to the study, would be first wheat, than safflower (an oilseed) and finally barley, planted over three years.

Alternatively, but less profitably, farmers could plant winter wheat one year, spring the next and leave the land fallow the third year, he said.

The ARS is urging farmers to remain flexible in their planting decisions. If there has been a dry winter and spring, farmers would do best fallowing the land, using conservation tillage prices that protect soil from erosion, and saving the costs of putting in a crop.

It is difficult to know though, Mr Aase said. This spring he would have recommended planting. Now he is worrying.

Bullion market to launch Gold Libor

By David Blackwell

THE LONDON Bullion Market Association is to publish from July 10 a London Interbank Offered Rate for gold, to be known as Gold Libor.

The new figure will be calculated on similar lines to the London Interbank Offered Rate, which represents the rate at which banks lend funds to each other in the London money markets.

"This is vitally important for the industry," said Mr Peter Hambro, chairman of the LBMA public affairs committee, yesterday. "It at last gives us a workable benchmark."

Many market users, particularly those with mining customers who use gold loans to finance development and capital projects, need long-term availability of gold. Although London's gold market has to date provided much of this funding it has until now been unwilling to offer fixed rates for the long periods involved.

The LBMA says the establishment of the Libor shows how London can quickly *respond to its customers needs.*

Potato researchers go back to the roots

Veronica Baruffati reports on work being done by international scientists in Peru

A RESEARCH centre in Peru is working to make the common spud even more common. *Solanum tuberosum*, as botanists know it, has brought together scientists from 22 countries in the International Potato Centre (CIP) in Lima's sunny suburb of La Molina.

CIP was founded in 1971 by Dr Richard Sawyer, a former professor at New York State's Cornell University, who considers the CIP very much his baby and is now its director general. He says the moving force behinds the centre's creation was the need for greatly improved nutrition in areas of the developing world. "We had to help places where large social cries were unanswered," is how Dr Sawyer puts it.

The CIP logo is a fourth century Nazca potato bearer who holds a diseased plant in his left hand and a healthy one in his right.

The centre was first funded in 1972 when the Consultative Group for International Agricultural Research made financing available to selected research centres. Within the group's system, the CIP's mandate was "to develop, adapt and expand research necessary for the technology to solve priority problems that limit potato production in developing countries."

Today, with over 40 donors, *the centre has an international* staff of 100, and 600 supporting personnel in La Molina who carry out research in collaboration with over 80 national agricultural research programmes throughout the world.

The potato, whose ancestral home is in the Andes, is one of mankind's most valuable foods. It produces more energy and protein per cultivated area per unit of time than most other major crops. Not only is it suitable for cultivation in temperate climates, but it also has enormous potential for adaptation to the diverse growing conditions of the tropics where the majority of developing countries are found. Nearly 3.5bn people (three quarters of the world's population) inhabit the 95 potato producing countries of the world.

The Huantayo centre is now managed entirely by Peruvians trained by CIP scientists

The centre has devoted much research to the development of a warm climate potato adapted to the specific needs of the tropical environment of many developing nations. This research is carried out *in conjunction with local programmes.*

One example of the centre's collaboration with other countries is its development of a warm climate Russet Burbank potato, used in North America for preparing frozen chips. The demand for fast foods in Asia is enormous and the CIP has helped to develop a warm climate Russet Burbank for these countries so that they won't have to import from North America. In this way franchised restaurants can use local produce without experiencing a drop in standards.

Over the years, the centre has built up a bank of geneplasm known as the World Potato Collection, which includes 5,000 cultivated and 1,500 wild types. This reservoir is the most complete and diverse collection of primitive potato cultivars in existence. For reasons of security, duplicates of this bank have been deposited in Santa Catalina, Equador and Braunschweig in West Germany. All available data related to the world potato collection are accessible through a computerised data management system.

Research on the potato is not limited to genetic improvements and the production of breeding materials. The centre sponsors research on the control of bacterial and fungus diseases, post-harvest technology (storage and processing) and seed technology.

The development of the true potato seed as an alternative to traditional planting with tubers has been a major breakthrough. True seed is produced in berries on the upper portion of the plant.

There are several advantages to planting with seed. A handful of seed replaces 2 tonnes of bulky, difficult-to-transport tubers; the cost is lower; seed is available year round, freeing the tubers normally saved for planting for consumption; and few diseases are known to be transmitted by seed. Demand for true seed technology is rapidly increasing and research is being carried out in 40 developing countries, some of which are already using seed commercially.

Since 1985 the centre has diversified into research on the sweet potato (*Ipomoea bapatas*), and it is expected that within the next couple of years 40 per cent of CIP research will be carried out on the sweet potato which grows widely in the tropics.

Mr Peter Gregury, head of research at the CIP, said that "looking ahead, it would not be unlikely that we diversify our research even further into other root and tuber crops."

A team of social scientists at the centre explores the complex system within which tuber and root crops are produced and utilised, placing special emphasis on cultural aspects, such as the role of women in agriculture.

The CIP has three other experimental stations in Peru: one in the cool Andean highlands of Huantayo (3,260 metres above sea level); and two warm and humid jungle sites, in San Ramon (800 metres above sea level) and Yurimaguas (180 metres above sea level).

The situation of violence and terror in Peru has also left its mark on the centre. Last year it had to pull out all of its international staff from their Huantayo base after Sendero Luminoso guerrillas had ambushed a CIP bus there, killing the head of security. The Huantayo centre is now managed entirely by Peruvians.

Given Peru's volatile situation, Dr Sawyer said that his three main concerns are to protect the lives of those working at CIP, to guarantee security of the world collection of geneplasm and to guard the CIP's physical facilities.

Dr Sawyer said that conversations are under way with the Equadorian Government to obtain permission to move the centres Huantayo high altitude research to Santa Catalina just outside Quito. He also added that he had just signed a large security contract for the protection of the San Ramon field station where international staff are still based despite surrounding Sendero Luminoso activities. The presence of foreigners, however, is minimised.

"Bricks and mortar can be moved. If we have to, we will. We are already highly diversified with 13 centres spread throughout the world," said Dr Sawyer. "However, we will stay in Peru as long as we can. Our wealth of 600 trained Peruvians, all professionals in their own right, would take years to replace. And after all, Peru is the home of the potato."

Brazil suspends 'irregular' sugar deals

By John Barham in Sao Paulo

BRAZIL IS to suspend all sugar export contracts signed in the period 1983 to 1985, because it considers the sales to be highly damaging to the national interest.

Announcing the move yesterday, Mr Roberto Cardoso Alves, the Industrial Development and Trade Minister, who is responsible for the sugar sector, said: "These contracts were irregular. I have determined that the president of the Sugar and Alcohol Institute instruct buyers that they may appeal to an international tribunal." He added that "past *presidents of the institute* exceeded their responsibilities."

The trade ministry said 14 export contracts covering the sale of 1.8m tonnes, with delivery due through to 1993, were to be suspended. It added that the contracts specified sale prices of $80 a tonne, about one-quarter of the present market price. During the period in question the London daily raw sugar price ranged between $79 and $193.50 a tonne.

A ministry official was unable to say which adjustment clauses had been written into the sales. She said: "It is clear that these contracts represent a heavy loss for Brazil."

The ministry has not said which countries or buyers will be affected by the ban. Mr Cardoso Alves has written to President Jose Sarnay for his final approval of the suspension.

In January, Mr Cardoso Alves ordered suspension of three 100,900 tonne export contracts and dismissed the then president of the Sugar and Alcohol Institute after reports of corruption in closing the contracts. The buyers, Portugal, Bulgaria and Czechoslovakia, are expected to contest his decision in an international court.

Soya protest to continue

By John Barham

BRAZILIAN soyabean producers said they would continue their month-old protest against government farm policy after a demonstration in the capital, Brasilia, on Wednesday failed to soften the Finance Minister's heart.

Between 8,000 and 10,000 farmers gathered in front of Congress to demand more government credit, higher prices and, above all, an immediate devaluation of the Brazilian cruzado. They said the overvalued currency had made exports unprofitable.

Mr Mailson da Nobrega said he would resign rather than devalue the currency. Exporters say the cruzado is 25 to 30 per cent overvalued. Farmers have suspended sales, blocked highways and stopped paying their bank debts in support of their demands.

Mr Iris Resende, the Agriculture Minister, promised to put together a compromise package to enable a resumption of sales. But protesters rejected *his proposal for a ten-day* "truce" during the talks.

However, reports from Brasilia suggest that soya farmers in southern Brazil have grown less militant following a slight rise in prices.

WORLD COMMODITIES PRICES

LONDON MARKETS

COPPER prices eased by the close on the LME yesterday after a short-lived Comex-based rally. Traders said buying enthusiasm was tempered somewhat by news that workers at Belgium's Metallurgie Hoboken Overpelt are expected to return to work at the Olen plant on Monday, thus ending a strike which started on June 8. Traders are still watching labour contract negotiations at Magma Copper and Highland Valley Copper. Zinc prices closed ahead, underpinned by a fundamental background which includes the strike at Eire's Tara Mines; trade talk of a force majeure by Spain's Asturiana de Zinc; and strike call by Peru's Centromin miners from July 10. Tin prices moved ahead. There appears to be no concern over the availability of nearby supplies prior to the spot delivery date becoming operational next week on the LME.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$15.45-5.65w	+0.05
Brent Blend	$18.10-8.20v	+0.20
W.T.I. (1 pm est)	$20.40-0.45w	+.275
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$211-213	-7
Gas Oil	$146-147	+3
Heavy Fuel Oil	$87-88	-0.5
Naphtha	$157-160	+3.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$376.0	+2.5
Silver (per troy oz)♣	528c	-2
Platinum (per troy oz)	$506.25	+0.75
Palladium (per troy oz)	$155.00	+0.40
Aluminium (free market)	$1880	+55
Copper (*US Producer*)	113⅝-118c	-0.5
Lead (US Producer)	38.5c	
Nickel (free market)	555c	+5
Tin (European free market)	$10040	-35
Tin (Kuala Lumpur market)	26.50r	-0.07
Tin (New York)	464.5c	
Zinc (US Prime Western)	80¾c	
Cattle (live weight)†	122.39p	+1.94*
Sheep (dead weight)†	180.73p	+13.5*
Pigs (live weight)†	93.23p	+9.40*
London daily sugar (raw)	$343.0x	-4.0
London daily sugar (white)	$452.0x	+4.0
Tate and Lyle export price	£335.0	-2.0
Barley (English feed)	£107.5w	
Maize (US No. 3 yellow)	£131.5	
Wheat (US Dark Northern)	£133.5u	
Rubber (spot)♥	60.50p	+0.50
Rubber (Aug)♥	65.00p	+0.25
Rubber (Sep)♥	65.75p	+0.25
Rubber (KL RSS No 1 Jul)	254.0m	
Coconut oil (Philippines)§	$552.5t	
Palm Oil (Malaysian)§	$367.5	+7.5
Copra (Philippines)§	$350	
Soyabeans (US)	£205	-3
Cotton "A" index	80.1c	-0.2
Woollops (64s Super)	622p	-2

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. v-Jul. u-Jun/Jul. x-Jul/Aug. w-Aug. z-Sep. t-Aug/Sep. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Jul	822	832	828 821
Sep	848	853	853 845
Dec	903	909	913 900
Mar	895	898	901 893
May	906	907	909 905
Jul	923	924	922 920
Sep	935	938	938 933

Turnover:6247 (7085) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 29 1035.80 (1049.95) :10 day average for Jun 30 1025.05 (1024.27)

COFFEE £/tonne

	Close	Previous	High/Low
Jul	1008	1025	1043 985
Sep	1010	1011	1026 965
Nov	1007	1017	1026 964
Jan	1007	1025	1035 985
Mar	1020	1039	1047 995
May	1040	1052	1057 1047

Turnover:4238 (3822) lots of 5 tonnes
ICO indicator prices (US cents per pound) for *Jun 28: Comp. daily 97.18 (98.54) . 15 day average* 102.73 (103.77)

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Aug	311.00	304.00	310.40 306.60
Oct	311.00	303.00	311.20 304.00
Dec	300.00	292.00	298.00
Mar	*298.00*	*287.00*	*295.00 288.00*
May	293.60	285.00	281.00
White	**Close**	**Previous**	**High/Low**
Aug	439.00	436.00	440.00 435.00
Oct	391.00	383.00	391.00 386.00
Dec	378.00	370.00	
Mar	360.50	355.00	360.00 355.00

Turnover: Raw 7668 (8107)lots of 50 tonnes. White 1334 (2084).
Paris- White (FFr per tonne): Aug 2890 Oct 2800, Dec 2480, Mar 2390, May 2380, Aug 2380, Oct 2215.

CRUDE OIL $/barrel

	Close	Previous	High/Low
Aug	17.55	17.40	17.61 17.30
Sep	17.19	17.09	17.22 16.96
Oct	16.97	16.85	17.00 16.75
IPE Index	17.46	17.44	

Turnover: 5839 (6920)

GAS OIL $/tonne

	Close	Previous	High/Low
Jul	143.25	142.75	143.25 140.75
Aug	144.00	143.50	144.25 141.75
Sep	145.50	144.50	145.50 143.00
Oct	147.00	146.50	147.00 145.00
Nov	149.00	148.75	149.00 147.00
Dec	150.25	150.00	150.25 148.75

Turnover 5556 (6980)lots of 100 tonnes

FRUIT AND VEGETABLES
British Strawberries are at their peak, 40-60p a ½lb (50-70p), while *homegrown* rasberries are building in supply. 70-90p a ½lb (80p-£1.00), reports FFVIB. Bananas are more plentiful 35-60p (40-50p), while the prices of peaches, 10-15p, nectarines, 15-25p, and apricots, 50-65p a lb are unchanged. British courgettes are now in the shops, together with imported supplies, *30-55p (45-70p), and homegrown calabrese* has also joined the imported sort at 40-65p (50-90p). Tomatoes are the top salad buy at 40-60p (45-65p). Dutch beef tomatoes are now 50-95p (65-95) and cherry tomatoes are also down to 65-95p a ½lb.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 17,200 tonne
Cash	1850-5	1830-40	1860	1860-2		
3 months	1810-5	1795-800	1825/1805	1817-20	1815-8	33,775 lots
Copper, Grade A (£ per tonne)						Ring turnover 44,975 tonne
Cash	1627-30	1630-3	1636/1632	1636-7		
3 months	1600-2	1603-4	1612/1590	1604-5	1607-8	75,045 lots
Lead (£ per tonne)						Ring turnover 13,875 tonne
Cash	423-5	426-8	425/422	421-2		
3 months	406-7	408-10	410/406	405-7	406-7	9,423 lots
Nickel ($ per tonne)						Ring turnover 1,036 tonne
Cash	12100-200	12050-100		12000-50		
3 months	11175-200	11100-50	11200/11150	11150-200	11175-200	6,616 lots
Tin ($ per tonne)						Ring turnover 190 tonne
July 3	10000-40	10050-60	10030	10000-50		
3 months	9980-10000	9985-90	10000/9990	9970-10000	10000-20	2,040 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 13,060 tonne
Cash	1700-10	1660-70	1694/1692	1694-5		
3 months	1595-600	1570-80	1610/1580	1590-5	1600-10	11,188 lots
Zinc ($ per tonne)						Ring turnover 12,575 tonne
Cash	*1615-20*	*1587-9*	*1630*	*1600-5*		
3 months	1517-20	1500-5	1515/1505	1505-10	1525-30	9,336 lots

POTATOES £/tonne

	Close	Previous	High/Low
Nov	118.0	121.0	
Feb	133.0	140.0	
Apr	195.9	203.0	199.0 195.0
May	216.0	222.0	218.0 217.0

Turnover 401 (661) lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Aug	157.00	158.00	157.00
Oct	152.50	153.00	152.50

Turnover 62 (52)lots of 20 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Jun	*1404*	1398	*1400 1398*
Jul	1395	1383	1400 1385
Oct	1518	1515	1532 1518
Jan	1555	1548	1557 1550
Apr	1585	1580	1587 1580
BFI	1410	1393	

Turnover 277 (166)

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Sep	106.25	104.40	106.25 106.00
Nov	109.40	108.00	109.50 108.75
Jan	113.05	111.30	113.05 112.60
Mar	115.95	114.20	115.75
May	119.50	116.15	119.30
Barley	**Close**	**Previous**	**High/Low**
Sep	104.65	104.40	104.85 104.55
Nov	108.30	108.00	108.30 107.95
Jan	111.60	111.30	111.60 111.50
Mar	114.30	114.20	
May	116.30	116.15	116.40 116.30

Turnover: Wheat 203 (191), Barley 89 (77).
Turnover lots of 100 tonnes.

PIGS (Cash Settlement) p/kg

	Close	Previous	High/Low
Jun	110.5	110.0	110.5
Aug	*111.5*	*111.5*	*110.5*
Oct	116.0	116.0	115.5
Nov	116.8	116.5	
Feb	109.5	109.5	109.0
Apr	110.5		109.7

Turnover 35 (15) lots of 3,250 kg

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	*375¾-376¼*	*240¾-241¼*
Opening	*375¼-375¾*	*240½-241*
Morning fix	376.30	240.908
Afternoon fix	376.30	240.340
Day's high	376-376½	
Day's low	375-375½	

Coins	$ price	£ equivalent
Mapleleaf	387-392	248-251
Britannia	387-392	248-251
US Eagle	387-392	248-251
Angel	386-391	247½-250½
Krugerrand	375-378	240-242
New Sov.	88½-89½	56¾-57¼
Old Sov.	88½-89½	56¾-57¼
Noble Plat	508.25-514.35	323.90-329.10

Silver fix	p/fine oz	US cts equiv
Spot	338.65	527.75
3 months	350.40	540.10
6 months	362.85	552.55
12 months	386.35	*575.90*

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1750	*109*	*105*	1	39
1850	30	54	22	86
1950	3	24	94	154
Copper (Grade A)	**Calls**		**Puts**	
2400	137	146	2	72
2500	56	97	21	119
2600	13	60	78	181

LONDON FOX TRADED OPTIONS

Coffee	Sep	Nov	Sep	Nov
950	96	144	41	68
1000	69	65	64	59
1050	49	46	93	90
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
800	58	118	11	17
850	28	84	31	33
900	11	57	64	58

US MARKETS

In the metals, gold and silver prices were lower in light volume, reports Drexel Burnham Lambert. A rise in European interest rates had little affect on the markets. Prices fell near the close as the U.S. dollar firmed. Copper futures advanced as strike news from Belgium prompted nervous buying. Bargain hunting kept platinum steady for most of the day until spillover selling from the gold produced a setback. In the softs, sugar rallied on carryover buying from the previous session. Coffee prices sank due to ICO news. Commission house liquidation and trade selling weakened the cocoa market. The grains were soft but first notice day was slow and uneventful for the markets. The livestocks were mixed after quiet dealings. Pork bellies fell near the close from commission house selling. Cattle and hog futures were slow. Cotton trading featured mixed commission house activity. The energy complex regained its upward momentum as prices closed well above the $20 level, basis August.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jul	371.2	377.0	0	0
Aug	373.9	379.2	383.0	373.0
Oct	377.9	383.3	385.9	377.0
Dec	382.0	387.5	391.5	381.0
Feb	385.1	391.7	392.4	387.0
Apr	390.2	395.9	395.9	395.9
Jun	394.3	400.1	0	0
Aug	398.4	404.3	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	498.9	503.6	509.5	498.0
Oct	501.2	508.3	512.0	499.0
Jan	*503.2*	*507.6*	*513.0*	*503.0*
Apr	506.7	511.1	511.0	511.0
Jul	510.4	514.8	519.0	519.0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jul	512.0	528.5	530.0	510.0
Aug	516.3	533.0	520.0	520.0
Sep	521.0	537.9	540.0	520.0
Dec	533.3	550.8	552.5	530.0
Jan	538.6	554.3	0	0
Mar	544.6	562.6	564.0	545.0
May	552.7	571.0	596.0	555.0
Jul	561.0	579.5	580.0	560.0
Sep	569.4	588.2	0	0
Dec	581.3	600.6	600.0	595.0

INDICES

REUTERS (Base: September 18 1931 = 100)			
June 28	June 27	mnth ago	yr ago
2019.8	2014.7	2006.8	2010.0

DOW JONES (Base: Dec. 31 1974 = 100)				
Spot	133.06	133.25	131.85	135.93
Futures	131.86	131.63	131.55	139.87

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	108.00	108.65	111.00	107.50
Aug	107.00	107.35	0	0
Sep	106.30	108.80	109.20	106.30
Dec	103.30	103.40	105.50	103.40

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Aug	20.36	20.03	20.54	19.90
Sep	18.57	19.28	19.68	19.14
Oct	19.01	18.75	19.10	18.61
Nov	18.68	18.41	18.70	18.28
Jan	18.12	17.95	18.15	17.80
Feb	18.00	17.80	18.00	17.66
Mar	17.83	17.68	17.83	17.55
Apr	17.64	17.58	17.64	17.47

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jul	4980	4931	5005	4890
Aug	5010	4944	5030	4900
Oct	*5125*	*5068*	*5150*	*5030*
Nov	5205	5133	5205	5095
Dec	5270	5198	5260	5170
Jan	5240	5213	5240	5190
Feb	5150	5138	5180	5150
Apr	4750	4798	4750	4750

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	1202	1209	1217	1205
Sep	1220	1237	1258	1218
Dec	1255	1270	1285	1253
Mar	1269	1281	1290	1266
May	1278	1289	1295	1281
Jul	1290	1305	1305	1305
Sep	1313	1327	1330	1313

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	111.60	114.36	112.00	106.00
Sep	105.84	107.47	106.05	102.70
Dec	104.01	105.22	104.10	101.00
Mar	105.25	106.24	106.00	102.30
May	107.25	107.25	107.50	105.00
Jul	109.50	110.25	109.50	107.00
Sep	109.75	108.25	110.00	110.00

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	13.92	13.66	13.95	13.64
Oct	13.98	13.53	13.99	13.66
Jan	12.85	12.69	13.00	12.75
Mar	13.28	12.97	13.29	13.06
May	13.13	12.90	13.14	12.97
Jul	12.98	12.90	12.98	12.89
Oct	12.69	12.60	12.70	12.65

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	67.11	66.88	67.20	66.60
Oct	70.25	69.75	70.40	69.60
Dec	70.48	70.23	70.68	70.15
Mar	71.25	70.95	71.60	71.00
May	71.85	71.40	72.10	71.75
Oct	68.20	67.70	68.10	67.90

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	174.00	178.30	177.00	174.00
Sep	167.60	172.60	170.40	167.60
Nov	155.60	160.50	158.00	155.50
Jan	151.10	153.90	152.00	150.50
Mar	150.30	155.25	151.00	150.00
May	149.60	152.75	0	0
Jul	149.60	152.75	0	0
Sep	149.60	152.75	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	722/4	727/6	734/0	716/0
Aug	696/2	701/4	704/0	693/4
Sep	656/2	661/2	664/4	655/0
Nov	641/4	646/0	647/4	639/4
Jan	648/0	654/2	654/0	647/0
Mar	656/4	662/4	663/0	655/4
May	660/4	666/6	666/0	659/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	20.22	20.64	20.65	20.20
Aug	20.42	20.87	20.88	20.40
Sep	20.60	21.02	21.05	20.55
Oct	20.70	21.15	21.25	20.70
Dec	20.97	21.40	21.45	20.95
Jan	21.07	21.42	21.50	21.05
Mar	21.40	21.75	21.75	21.40
May	21.64	21.82	21.90	21.64

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	212.7	214.8	215.0	212.5
Aug	207.1	208.6	209.0	206.8
Sep	200.8	202.9	202.5	200.5
Oct	194.8	196.5	196.5	194.6
Dec	192.4	194.2	194.5	192.3
Jan	191.5	193.5	194.0	191.5
Mar	191.5	192.7	193.5	191.5
May	190.5	193.0	190.0	191.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	264/4	264/6	264/6	263/0
Sep	251/0	250/6	251/6	249/4
Dec	*247/2*	*247/2*	248/4	245/4
Mar	254/2	253/6	254/6	252/2
May	256/0	255/6	257/4	256/0
Jul	258/0	255/6	258/0	255/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	405/0	412/2	410/0	404/4
Sep	406/2	413/6	413/4	406/0
Dec	418/6	423/6	423/0	418/4
Mar	421/6	425/0	425/4	421/4
May	409/0	411/0	410/0	406/4
Jul	372/0	374/4	374/2	372/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	70.77	70.42	70.97	70.55
Sep	71.50	71.30	71.60	0
Oct	73.27	73.22	73.70	73.22
Dec	72.70	72.72	72.92	72.65
Feb	71.62	71.77	71.87	71.60
Apr	72.35	72.45	72.60	72.35
Jun	71.05	71.30	71.17	71.10

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Jul	48.90	49.10	49.30	48.82
Aug	47.72	48.32	48.40	47.85
Oct	43.57	43.90	44.10	43.55
Dec	45.57	46.00	46.25	45.62
Feb	46.70	46.95	47.10	46.70
Apr	43.88	43.95	44.22	43.95
Jun	48.30	48.20	48.50	48.30

PORK BELLIES 40,000 lbs; cents/lb.

	Close	Previous	High/Low	
Jul	34.70	35.35	35.85	34.60
Aug	35.15	35.35	35.95	35.00
Feb	52.15	52.52	52.95	52.05
Mar	52.00	52.30	52.50	51.82
Jul	52.80	53.80	53.75	52.80
Aug	51.00	50.60	51.00	0

LONDON STOCK EXCHANGE

German rates move hurts equities

Account Dealing Dates			
*First Dealings	Jun 19	Jul 3	Jul 17
Option Declarations	Jun 29	Jul 13	Jul 27
Last Dealings	Jun 30	Jul 14	Jul 28
Account Day	Jul 10	Jul 24	Aug 7

*New time dealings may take place from 9.00 am two business days earlier.

THE BUNDESBANK'S decision to lift interest rates jolted confidence in the London stock market yesterday, bringing a sharp setback in an equity sector already unsettled by signs of an increasing slowdown in the US economy. The Footsie Index fell below the 2,200 mark regained only two sessions ago. However, UK analysts doubted whether the West German move, quickly followed elsewhere in Europe, had undermined the more optimistic view on domestic interest rates adopted recently in the London equity market.

Equities had already scented the move on European rates, but share prices extended their losses following the announcement from the Bundesbank. By early afternoon, the FT-SE Index was nearly thirty points off as share prices were marked down.

Seaq volume figures showed a modest increase but traders stressed that there was no pressure of selling from the institutions. However, with Wall Street duly fulfilling expectations by opening with a further setback, there was little recovery in London.

At the close, the FT-SE Index showed a fall of 27.4 points to 2,182. Seaq volume of 385.8m shares compared with 446.2m in Wednesday's curtailed trading session and with recent daily totals in the 400m plus range.

Market specialists showed few signs of alarm at yesterday's setback, which appeared to reflect worries about the US economy rather than European interest rates. "We were probably overbought at FT-SE 2,200," said Mr Ian Stephenson at Salomon International. He pointed to the influence of the end of the June quarter, on which investors have enjoyed satisfactory investment return of around 8 per cent; recent sessions may have seen some window-dressing activity, he suggested.

At Prudential-Bache, Mr John Reynolds was also sanguine. "Sterling didn't fall off a cliff yesterday," he observed. While he expects the market to remain nervous until domestic inflation has been clearly seen to have peaked, the Bundesbank move, "has not set alarm bells ringing."

Market indices were put under extra downward pressure by weakness in a handful of leading blue chips. As applications for the Abbey National issue reached the deadline, TSB disappointed the financial sector with a hefty fall in interim profits. ICI fell heavily as some UK houses took a cautious view of prospects for the petrochemical side. Glaxo was another to suffer a setback.

The picture was brightened by a scattering of firmer features. There was further demand for GEC in the wake of the excellent results announced on the previous day and a leading US house returned with a fesh recommendation for shares in BAT Industries.

FINANCIAL TIMES STOCK INDICES

	Jun 29	Jun 28	Jun 27	Jun 26	Jun 23	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	86.03	86.08*	86.35	86.39	86.45	87.92	89.29 (8/2)	85.75 (14/6)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	95.94	96.02*	96.01	95.82	95.54	97.58	99.59 (15/3)	95.21 (13/6)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1809.8	1832.4*	1829.7	1808.3	1797.7	1483.2	1837.5 (19/6)	1447.8 (3/1)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	192.2	193.2	192.5	195.7	192.8	207.2	198.7 (26/6)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.45	4.38	4.38	4.41	4.44	4.52				
Earning Yld % (full)	10.43	10.27	10.28	10.39	10.46	11.51				
P/E Ratio(net)(*)	11.57	11.75	11.74	11.60	11.52	10.57				
SEAQ Bargains(5pm)	25,931	25,374	27,068	25,004	22,483	24,945				
Equity Turnover(£m)†	-	1286.19	1265.37	1297.08	1485.60	1146.65				
Equity Bargains†	-	29,033	27,801	27,681	28,438	25,494				
Shares Traded (ml)†	-	448.2	418.1	462.0	511.8	432.9				

Ordinary Share Index, Hourly changes

Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1821.7	1818.4	1819.3	1815.5	1817.5	1812.0	1809.7	1813.5

DAY'S HIGH 1822.1 DAY'S LOW 1808.5

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974. *Nil 11.46 †Excluding intra-market business. *Based on 4.05pm closing prices

S.E. ACTIVITY

Indices	Jun 28	Jun 27
Gilt Edged Bargains	108.9	129.0
Equity Bargains	188.1	178.2
Equity Value	2559.3	2598.1
5-Day average		
Gilt Edged Bargains	100.0	93.1
Equity Bargains	180.7	173.5
Equity Value	2652.7	2764.5

● London Report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Changes of stance on ICI

The rush to mark down prices hit ICI more than most. As well as the general market mood, the stock was undermined by persistent stories of imminent bearish comments from analysts.

One top broking house agreed that it had decided that the company's second quarter would not show its usual seasonal bounce. It said that any analyst forecasting more than £1700m for the current year would have to cut the estimate. On the petrochemical side, the broker highlighted a 10-day shutdown of the Wilton 6 cracker and softening of ethylene and polypropylene prices. The pharmaceutical side was being hit by a slowdown after first quarter overbuying from the Japanese and disappointing early returns from US trials of Statil, a diabetes drug. A second broker confirmed the plastic price and drug trial stories.

Mr Andrew Benson, analyst at Robert Fleming securities, changed his recommendation to investors from buy to hold. But he is sticking with his profit forecast, of £1580m, while Hoare Govett, the company's broker, reiterated its £1600m prediction. Hoare is also keeping its "undervalued" assessment of the stock.

ICI closed at 1279, a fall of 39 on the day and 2 above the worst. Volume was a respectable 3.1m shares.

TSB dismay

Although the market was bracing itself for a poor set of interim figures from TSB, the 32 per cent decline to £164.5m left dealers reeling. The more pessimistic analysts had been forecasting £175m, and the worse than expected fall led to a rush of downgradings. On the news the shares immediately dropped to 103p, and with little support, even at the lower levels, the price closed at 103½p, down 6½ on turnover of 2.8m.

"Awful," "dreadful" and "very, very poor" was how three analysts described the results. The bad news on mortgage business had been anticipated, but the profits on the treasury side were some £15m short of expectations ("they got interest rates completely wrong," said one analyst), while operating costs were well above (17 per cent) what most had forecast.

Among the many new, lower, estimates, Mr John Tyce of Nomura Research has come down £30m from his original full-year forecast to £345m, and Mr Robert Law of Shearson Lehman has cut his figure by no less than £60m to £330m. As for the outlook for the share price, analysts were unwilling to predict a recovery; "The performance of the stock is going to be dull at best from here on," said one.

Acclaim for BPB

BPB Industries received acclaim yesterday not only for trading actively but also for resisting the prevailing weak equity tone. Some 5.4m shares changed hands as the price rallied from recent weakness to end 7 higher at 236p. The full-year profits, at £202m, were above some of the downgraded estimates, of which there have been a constant stream over past months, but below some of the more optimistic forecasts.

The accompanying statement from the group was encouraging and caused a further revision of analysts' predictions. Those who had cut too far for the current year moved back up while others shaved their estimates. However, the majority tended to agree with the County NatWest WoodMac view that investors should be "collectors" on bad days (such as yesterday) but look to become increasingly aggressive buyers in the next nine months.

Sir Ron Brierley's purchase through his UK investment vehicle IEP Securities of a 23.68 per cent shareholding in Caffyns, the Sussex-based motor dealer, sent the shares yet higher. They closed up 42 more for a two-day surge of 112 to 600p. Cause of the upsurge was news that Allied Partnership had sold its holding of 13.3 per cent to IEP at £6 per share. Mr C.J Giltrap has also disposed of shares, reducing his holding to [illegible] per cent. Caffyns shares are tightly controlled with the family holding 54 per cent of the voting rights. Any offer for the company would thus need to be recommended.

Mr Giltrap holds a big stake in Frank G Gates, another motor distributor, whose shares also enjoyed a good run yesterday. They ended 26 higher at 208p.

Market satisfaction with GEC's profits was further encouraged by a television interview with Lord Weinstock, the chairman. Some UK investment houses raised forecasts for GEC's current year, notably County NatWest WoodMac, which now aims for £865m pre-tax; however, Mr Chris Tucker at Kleinwort Benson, sounded less enthusiastic, and said he was unlikely to raise his forecast above £860m.

The personal telephone sector was featured by a presentation to London analysts by Cable & Wireless which gained 2 to 512p after stressing its intention of offering strong competition in the field when its Mercury subsidiary receives the promised license; Cables hopes for 25 per cent of the personal phone market. Both British Telecom (261p) and Racal Telecom (439p) gave further ground yesterday.

The long-awaited 11th Licencing Round, which allocated exploration and production rights to blocks of the North Sea, produced some sharp changes of share price in the last half hour of trading. Cairn Energy, the UK-quoted part of Sun Oil, which was given what one analyst described as "a star block," jumped 23 to 248p. Small UK independent British Borneo added 10 at 580p while Hardy Oil and Gas climbed 8 to 143p. The last named has been awarded a block adjacent to a known large gas condensate discovery.

"The UK independents did well, especially the smaller ones," said Mr Keith Morris of broker Kitcat & Aitken. He also picked out USM-quoted Monument Oil and Gas as a winner, although the stock only firmed ¼ to 27¼p. "There was a lot in the price already," explained Mr Alan Sinclair, of the oils team at Smith New Court.

Opinion was sharply divided over what the allocations meant for Lasmo. Mr Morris said it had done reasonably well, if unexceptionally so. Mr Jim Henderson at BZW said that of all the beneficiaries, Lasmo could be the the one to be disappointed. However, Mr Philip Lambert at Kleinwort Benson this morning issues a "strong buy" recommendation for the stock. As well as citing benefits accruing the 11th round licence allocations, he predicts a rapidly rising production profile into the 1990s.

Banks, unnerved early on by the TSB figures, failed to buck the market trend. Barclays fell 9 to 453p, NatWest 8 to 295p, Lloyds 7 to 344p and Midland, also 7, to 348p.

The placing of 4.75m shares with French investors at 436p a share supported Steetley, marginally firmer at 444p. Application has been made for the shares to be listed on the Paris bourse.

Among lower Stores stocks two were notable for their gains; Burton, up 3 at 228p and still benefiting from a large short position in the market and some US interest, and Ward White, up 4 at 323p, after 326p, in good turnover. There has been speculation of a consortium bid for some time, and reports that Mr Asher Edelman, the US arbitrageur, has been trading in and out of a near 2 per cent stake. There was strong activity on the inter dealer-broker screens during the yesterday's session, implying possible stakebuilding, said dealers.

Profit-taking hit Ratners hard after the recent advances, the shares slipping 11 to 243p; one leading securities house was advising clients to "top-slice," ie sell at the top and buy back at the lower levels.

British Aerospace slipped 7 to 673p despite unveiling a 12-Airbus order from Gulf Air. Kitcat and Aitken predicted a rosy future for the UK aerospace industry after the broker hosted Airbus Industrie's first investor presentation since 1983. Airbus is run by a consortium of European aerospace concerns: British Aerospace has 20 per cent and builds the wings.

Demand for Airbus aircraft is so strong that the company is achieving 105 per cent of list-price on sales. "Airbus is on target for a 30 per cent plus share of the market," said Mr Clive Forestier Walker of Kitcat. "The fact they are now getting those sort of prices means that in two years time there will be a turnaround in the fortunes of the constitutent companies. BAe's 20 per cent stake is on track for profitability within 5 years." Airbus Industrie also mentioned that it was considering becoming a plc eventually, although no details were given.

Aerospace Engineering burst ahead 10 to 96 after it said it planned to market a device to irradiate food that was environmentally safe. It subsided to 93 by the close, a net rise of 8.

BAT Industries were able to resist the effects of the wider market fall because of revived US buying interest. It eventually lifted the shares 4 to 657p.

A singly buyer bought at least 1 per cent of J Hewitt stock, which duly jumped 7 to 125p.

United Biscuits dominated a mixed Foods sector, the manufacturing group's shares rose 8 to 374p on busy turnover of 4.7m. Once again it was the combination of European and US buying that supported the price, as well as demand from what one dealer called "a very unusual source."

Asda were also traded in a lively fashion. A short 5m shares, including one bargain of 1m, changed hands as the price eased slightly to 179½p.

One market observer was intrigued to discover that the three large trades seen during Wednesday's session were not on the following day's Official List from the Stock Exchange. Their absence could be down to a genuine failure to match the trade during checking, said the observer, or it could be someone deliberately trying to disguise the price at which the shares were traded.

Acatos & Hutcheson, the edible oils and fats manufacturer, bucked the market with a rise of 8 to 223p. One analyst suggested the rise was down to the market's belated recognition of the benefits of a weak sterling. Although not a big exporter, A&H has suffered from a strong pound, which cut the cost of the oil and fats products made by European competitors. Now that the pound has fallen, A&H can bring further capacity on stream without worrying about losing business to the Continent.

Budgens, recently the failed suitor of Scottish supermarket group William Low (264p), dropped 4 to 114p after reporting profits of £16.4m for the 70 weeks to the end of April 1989.

USM-quoted Harmony Group posted a full year loss of £127,000 against a previous profit of £382,000 and fell 5 to 58p.

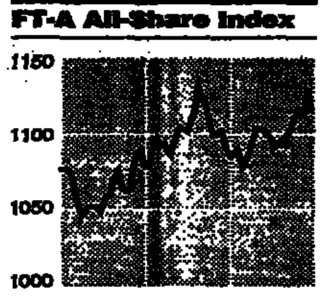
Avesco, the broadcasting and video supplies company, announced a one for four rights issue at 125p to raise around £13.2m. The cash call was sweetened with a 77 per cent jump in year end profits to to £5.6m. The stock shaded 5 to 145p.

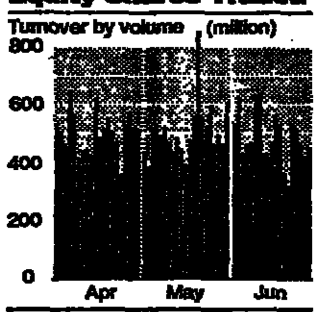
The annual figures of Dowty were hardly disappointing, being near the highest estimates, but the shares succumbed to the weak equity trend and settled 8 down 269½p.

The relapse into first-half losses took a toll on Craton Lodge & Knight, down 11 at 55p, and recently-firm Charles Barker slid back as profits were taken to close 5 lower at 108p.

Increased annual earnings touched off persistent buying of Caledonia Investments and by the end of the session the shares were 9 up at 372p. Elsewhere, Clayton Robards staged a revival, gaining 4 to 26p.

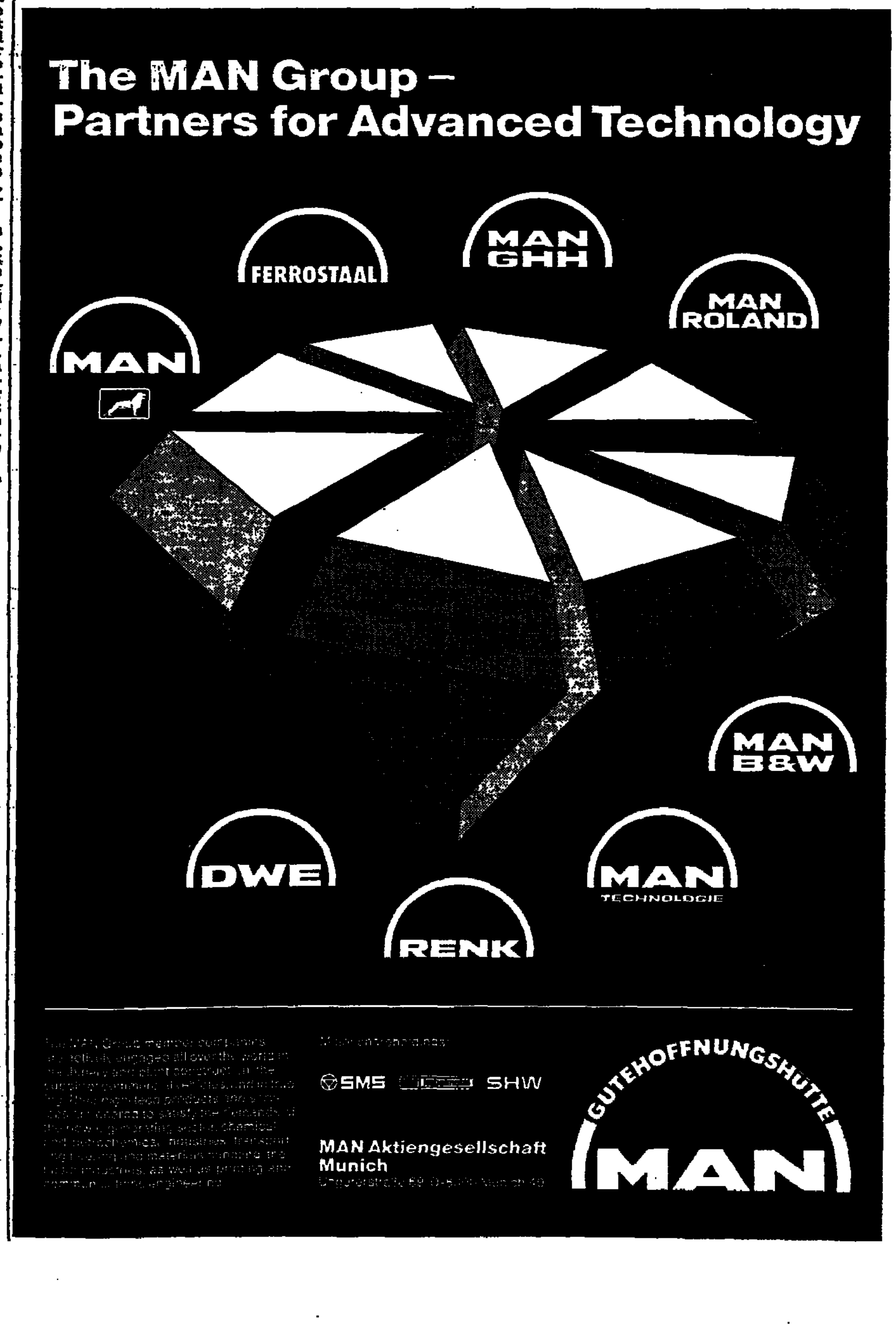
■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 27





NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (86).
LOANS (5) CANADIANS (2) BANKS (4) BUILDINGS (4) Anglo Utd., Jackson Grp., Pochins, Ward Grp., CHEMICALS (1) Ellis & Everard, STORES (3) ELECTRICALS (4) GEC, Microlec Grp., Peeny & Giles Int'l., TDK, ENGINEERING (4) Aerospace Eng., Johnson & Firth, ML Hldgs., Powerscreen Int'l., FOODS (5) INDUSTRIALS (18) Alfa-Laval, Amber Inds., Assoc. Nursing Servs., B.H. Prop., Barry Wehmiller, Cape Inds 8.4pc Pf., Charter Cons., EIS, French (Th.), Halma, Handley-Walker Grp., Harris (Ph.), Hunting Assoc., Oriflame, RPS Grp., Scapa Grp., Sothebys Hldgs. Inc. Class "A", Stocklake, MOTORS (2) Caffyns, Gates (F.G.), NEWSPAPERS (3) Blenheim Exhbs., Euromoney Pbs., Sterling Pubs., PAPERS (1) PROPERTY (4) TEXTILES (1) TRUSTS (12) OILS (8) Cairn Energy, Clyde Pet., Cons. Brinco, Enterprise Oil, Hunting Pet, LASMO, Sceptre Res., Tuskar Res., OVERSEAS TRADERS (2) MINES (10) THIRD MARKET (3).
NEW LOWS (47).
LOANS (1) CANADIANS (1) BUILDINGS (3) Carron Phoenix, Jarvis (J.), Wilson (Connolly), ELECTRICALS (6) Circaprint, Crystalate, Elect. Data Procg., Logica, Multitone, Northamber, FOODS (1) Hughes Food, HOTELS (1) Harmony Leis., INDUSTRIALS (12) Aaronson Bros., Benlox, Cannon St. Invs., Copymore, Hyman, Interlink Express, Lincat Grp., MB Grp., Mid Kent Hldgs., Myson Grp., Relyon, Vinten Grp., MOTORS (5) Bletchley Motor, Cook (D.C.), Davenport Vernon, Trimoco, Do. 11½% 1995, NEWSPAPERS (1) Maxwell Commn., PAPERS (3) Brunning Grp., Craton Lodge, Monotype Corp., PROPERTY (3) Asda Prop., Merlin Int. Props., Warner Estate, TEXTILES (1) TRUSTS (2) OILS (1) Meridian Oil, MINES (6).



APPOINTMENTS

600 Group managing director

■ Following the resignation of Mr Noel Davies to take up an appointment with VSEL Consortium, the 600 GROUP is appointing Mr Brian A Carter as group managing director from September 1.

Mr Carter joined the group from CompAir in 1985 as managing director of the group's subsidiary, The Colchester Lathe Company.

Since June 1986 he has been the executive director responsible for the group's manufacturing division, which includes all the subsidiary companies which have a substantial manufacturing element in their business in the UK and whose output represents a large part of the group's turnover.

He is also a non-executive director of Flakt (UK).

■ Mr Ronald J. Young, director of Lombard North Central, the finance house subsidiary of National Westminster Bank, has been appointed second vice chairman to EUROFINAS, the European finance house association.

■ CLIFFORD FOODS has appointed Mr Peter Cottingham as chief executive from July 1. He was previously a director of Boots the Chemists with whom he held senior positions in general management and marketing of consumer products.

ARBUTHNOT LATHAM has appointed Mr Adrian Bradshaw (above) to the main board as executive director responsible for the corporate finance department. He was previously a director of Guidehouse.

■ Mr Miles J. Rivett-Carnac, chairman of Baring Investment Management Holdings, has become chairman of BARING BROTHERS (GUERNSEY) following the retirement of Mr Robin Dent. Mr Peter P. Walsh has been made managing director following the retirement of Mr John G.J. Evett. Mr Michael T. Chamberlayne and Mr Jeffrey L. Barton have become non-executive directors. Lord Cromer and Mr Timothy G. Abell have retired as non-executive directors.

■ RENTOKIL GROUP has appointed Mr Michael Holmes as regional managing director of Property Care. Dr Alan Ross-Jones has also been promoted to divisional managing director-timber preserving.

■ Mr Barrie Whipp has been appointed managing director of TIPHOOK FINANCIAL SERVICES. He was corporate finance manager.

Mr Stephen Goodwin has been promoted to group financial controller for TIPHOOK. He succeeds Mr John Christmas who has been made financial director of Tiphook Communications International.

■ Mr Brian Redhead has been appointed to succeed Mr Steve Castle as sales and marketing director of HARMO INDUSTRIES on August 1.

■ Sir Greville Douglas Spratt, formerly Lord Mayor of London and managing director of J. & N. Wade Group, has been appointed a non-executive director of the WILLIAMS LEA GROUP, printing and communications specialists. Sir Greville is a regional director of the National Westminster Bank, City and West End board.

■ CIBA-GEIGY PLC is making the following appointments on July 1: Mr D.N.H. James and Mr B.G. Kerr have been appointed to the board. Mr James is UK group services director. Mr Kerr, who was until recently head of planning, information and control of Ciba-Geigy Pigments in Paisley, also becomes group finance director in succession to Mr G.A. Brazel who is retiring. Mr I.R.F. Stewart has been made head of legal and communications and company secretary in succession to Mr R.E. Walker who is to retire. Mr Stewart is group public affairs manager.

GRANADA TELEVISION has appointed Ms Katherine Stross (above) as its finance director. She was an analyst with Mobil Oil in London and New York before joining the Boston Consulting Group in London in 1984.

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. [illegible] Unit Trust Code Booklet ring the FT Cityline [illegible]

AUTHORISED UNIT TRUSTS

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	5	55.70	56.44	60.05	-0.18	4.56
Gilt & Fixed Int	6	109.8	109.8	115.4	-0.1	8.59
High Inc Equity	6	134.60	137.5	145.3	-1.5	4.34
Worldwide Bond	5	206.7	206.7	219.0	-0.2	4.43
Capital Growth						
American Growth	6	190.7	190.7	204.6	-1.5	0.93
Asian Pacific	6	97.88	97.88	104.7	+0.6	1.24
Assets & Earnings	6	160.4	160.4	171.6	-0.3	2.16
Capital Reserve Acc	6	65.56	65.56	65.62	-0.07	4.67
Commodity & Energy	6	102.6	102.6	109.8	+0.4	1.73
1992 Enterprise	6	58.57	59.70	63.52	-0.04	2.83
European Capital	6	88.39	89.09	94.73	+0.47	0.79
General	6	180.1	180.1	194.8	-0.4	2.31
International	6	46.71	47.00	50.01	+0.08	1.00
Japan	6	109.5	108.5	116.1	+0.4	0.00
Mar'kets	6	85.29	86.28	92.92	-0.05	1.83
UK Growth Acc	5	202.1	202.1	216.2	-0.1	1.39
UK Growth Dist	6	134.9	134.9	144.3	..	1.34
US Emerging Cos	6	55.42	57.45	61.20	+0.13	0.00
Income & Growth	6	290.8	299.5	320.7	-2.3	3.30
Ethical	6	49.70	50.55	53.78	-0.05	1.66
Abtrust Management Ltd (1000)H						
10 Queens Terrace, Aberdeen AB9 1QJ 0250 833580						
Amer Inc & Growth	5	31.94	31.94	34.10	-0.15	3.27
European	5¼	66.64	66.95	71.47	-0.23	0.00
European Income	5¼	65.32	65.32	69.73	-0.35	2.99
Exempt	1	808.7	808.7	844.0	-4.20	2.17
Extra Income	5	43.27	43.27	46.19	-0.27	7.68
Far East Emerg Cos	5¼	47.15	47.63	51.01	-0.93	0.77
Fund Inv Tst	5	123.5	123.5	131.8	-	2.45
Do Accum	5	192.2	192.2	205.2	-	2.45
Gilt & Fixed Int	5¼	21.14	21.14	22.57	-	10.73
Income & Growth	5¼	73.91	73.91	78.90	-0.70	4.12
Intl Income	5¼	63.70	63.70	68.00	-0.17	5.20

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Burrage Unit Tst Mangmt Ltd (0905)F						
117 Fenchurch St, London EC3M 5AL 01-480 7216						
Sm Dsd Gilt & FI	1¼	53.29	53.29	54.03	-0.01	2.92
CCL Unit Trusts Ltd (1400)F						
74 Shepherds Bush Green, W12 8SD 01-740 7070						
UK General Tst	5½	55.22	56.06	57.96	-0.20	2.70
Global Tst	5½	44.19	44.63	47.73	-0.12	2.01
Recovery Tst	5½	53.63	53.63	59.57	-0.08	1.92
CIBC Unit Tst Managers plc (1200)H						
Cottons Ctr, Cottons Lane Lon SE1 2QL 01 234 6000						
Growth Fd Acc	5	108.8	110.1	116.2	-2.1	1.64
CS Fund Managers Limited (1000)H						
125 High Holborn, London WC1V 6PY 01-242 1148						
CS America	5	62.96	62.96	66.97	-0.08	0.62
CS International F	5	57.45	57.45	61.11	-0.28	1.70
CS Japan F	5	124.4	124.4	132.3	+0.4	0.33
CS Portfolio Inv ◆	5	73.54	73.54xd	78.23	-0.41	1.39
Canada Life Unit Tst Mgrs Ltd (1200)F						
2-6 High St Potters Bar Herts 0707 51122						
Can Gen Dist	5	142.7	148.9	156.7	-1.40	2.75
Do Gen Accum	5	239.7	248.4	261.4	-2.30	2.95
Do Income Dist	5	94.29	98.20	103.4	-0.80	5.45
Do Inc Accum	5	216.0	225.0	236.3	-1.90	5.45
Gilt & Fxd Int	5	36.33	36.38	38.30	-0.16	8.38
Cannon Fund Managers Ltd (0700)H						
1 Olympic Way, Wembley, HA9 0NB						
01-902 8876 Dealing 0800 282621						
Growth	5½	38.97	39.11	41.85	-0.17	2.43
Income	5½	48.55	48.73	51.95	+0.09	3.96
Far East ◆	5½	36.31	36.81	39.37	-0.56	0.06
North American ◆	5½	36.60	37.15	39.74	-0.24	1.61
Global ◆	5½	51.45	52.30	55.64	-0.19	1.76
European	5½	56.11	56.91	60.54	+0.11	0.39
Japan ◆	5½	104.3	105.1	112.4	-0.60	0.01
Intl Currency Bd	5½	44.39	44.38	47.07	+0.02	6.37
Strategic Opps	5½	55.00	55.41	59.10	+0.37	1.24
Capability Trust Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Road Hutton, Brentwood Essex						
Enquiries 0277 227300 Dealing 0277 261010						
American & Gen	5	79.97	79.04	84.09	-0.25	1.70
(Accum Units)	5	82.45	82.53	87.80	-0.30	1.70
European Inc	5	56.63	56.99	60.63	+0.42	0.89
(Accum Units)	5	57.34	57.72	61.40	+0.43	0.89

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
(Accum Units)	6	111.2	112.2	120.0	-0.4	3.72
Meridian Growth	6	118.2	119.0	127.3	-0.4	1.46
Midland Personal Pension Unit Trust *						
British	6	58.68	59.32	63.11	-0.62	2.21
European Growth	6	59.15	59.25	63.03	+0.28	0.39
Gilt & Fixed	6	49.83	49.83	53.00	-0.12	8.55
Income	6	54.62	55.50	59.04	-0.38	3.48
Japan Growth	6	55.16	55.47	59.01	+0.27	0.00
Managed	6	55.66	56.49	60.10	-0.08	1.61
Money Market	6	52.52	52.53	55.67	+0.01	10.76
North American	6	58.72	59.86	63.68	-0.11	0.40
Midland FSAVCS Unit Trust *						
British	6	55.65	56.26	59.85	-0.58	2.21
European Growth	6	57.74	57.83	61.52	+0.25	0.39
Gilt & Fixed Int	6	49.34	49.34	52.48	-0.13	8.54
Income	6	55.69	56.51	60.22	-0.39	3.48
Japan Growth	6	57.34	57.67	61.35	+0.39	0.00
Managed	6	54.97	55.80	59.36	-0.09	1.61
Money Market	6	50.86	50.87	53.91	+0.01	10.77
North American	6	59.07	60.22	64.06	-0.11	0.40

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Japan Acc	5	116.30	116.3	124.40	+0.5	0.00
UK High Inc Eq Inc	5	72.65	72.65	78.51	-0.34	5.74
UK High Inc Eq Acc	5	80.70	80.70	87.22	-0.37	5.74
Hong Kong Inc	5	36.24	36.24	38.65	+0.60	3.46
Hong Kong Acc	5	37.50	37.50	39.90	+0.71	3.46
Swiss Equities Inc	5	37.78	37.78	40.47	-0.02	1.18
Swiss Equities Acc	5	38.11	38.11	40.83	-0.02	1.18
W'wide Bond Inc	5	52.89	52.89	55.85	+0.21	5.80
W'wide Bond Acc	5	54.61	54.61	57.70	+0.21	5.80
Emerging Asia Inc	5	81.53	81.53	87.42	-0.52	0.00
Emerging Asia Acc	5	81.63	81.63	87.43	-0.52	0.00
Provident Mutual Unit Tst Mgrs Ltd (0905)H						
25-31 Moorgate, London, EC2R 6BA 01-588 2963						
PM Equity Gth	5	121.9	124.0	131.9	-2.4	2.52
PM Income & Gth	5	104.8	106.7	113.5	-0.5	4.62
PM Nth Amer Gth	5	55.96	55.96	59.53	-0.56	1.27
PM European Gth	5	57.65	57.65	61.32	+0.29	0.72
PM Japan Gth	5	76.82	76.99	81.90	-0.53	0.30
PM Overseas Gth	5	53.02	53.02	56.40	-0.22	3.46

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trust's daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ▼ - 0001 to 1100 hours; ◆ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ● - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

هكذا هو الأصل

FT UNIT TRUST INFORMATION SERVICE

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Windsor Trust Mngrs Ltd (1200)F
83 Kingsway, London. WC2B 6SD 01-405 8331

	Init Chge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Capital & Equity	5	63.05	65.46	70.17	+0.86	6.81
European	5	68.44	68.92	73.21	+0.02	0.09
Far Eastern	5	61.35	61.50	65.42	+0.32	0.67
Growth Inc	5	88.80	92.24	98.12	-0.14	1.41
Growth Acc	5	88.80	92.24	98.12	-0.14	1.41
Income Inc	5	84.04	85.89	91.37	-0.66	4.68
Income Acc	5	84.04	85.89	91.37	-0.66	4.68
Property Share	5	54.77	54.77	58.38	-0.28	0.99
Smaller Co's	5	58.90	62.92	66.29	-0.21	2.46
Nth American	5	64.35	64.35xd	68.82	-0.09	1.55
International	5	48.34	48.34xd	51.70	+0.14	1.41

Wright Seligman Fund Mngrs Ltd (1000)H
11 Bloomfield St, London EC2M 7AY 01-588 8592

	Init Chge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Growth	5	112.30	112.30xd	117.38		4.05

Weekly dealing day Tuesday

The Yorkshire Unit Tst Mngrs Ltd (1100)F
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250

	Init Chge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Yorkshire General	5¼	63.17	65.70xd	69.89	-0.06	2.40
[illegible]	5¼	60.56	62.71	66.71	-0.13	4.58
[illegible]	5¼	51.07	51.07	54.49	-0.15	.99

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

	Bid Price	Offer Price	+ or -	Yield Gr's
Int'l Expt June 7	485.5	505.8		–

Cent. Bd. of Fin. of Church of England‡‡
2 Fore Street, London EC2Y 5AQ 01-588 1815

	Bid Price	Offer Price	+ or -	Yield Gr's
Inv Fund May 31		315.45		4.75
Fxd Int Sec May 31		139.45		10.25
Deposit May 31		100.00		12.45

Charinco/Charishare‡‡ (1000)F
53 King William Street, EC4R 9AS 01-280 2800

	Bid Price	Offer Price	+ or -	Yield Gr's
C'inco Inc June 21	162.1	164.1xd	+3.60	9.83
C'inco Acc June 21	665.1	681.6xd	+6.40	9.83
C'share Inc June 21	149.8	155.2xd	+3.00	3.66
C'share Acc June 21	164.6	170.6xd	+3.30	3.66

Charities Official Invest. Fund‡‡
2 Fore Street, London EC2Y 5AQ 01-588 1815

	Bid Price	Offer Price	+ or -	Yield Gr's
Income May 31		487.57		4.90
Accum May 31		1620.94		–

Edinburgh Fund Mngrs PLC

INSURANCES

Continued on next page

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Premium Life Assurance Co Ltd

Prudential Holborn Pensions Ltd—Contd.

Prudential Pensions Limited

Scottish Equitable Life Assce. Soc.

Skandia Life Assurance Co Ltd—Contd.

Target Life Assurance Co Ltd—Contd.

O'Halloran & Co/Countrywide

PBR Fund Management Ltd

Roxborough Financial Management Ltd

Rothschild Asset Management—Contd.

Bamford Brandt Guernsey Mngt. Ltd

The Bangkok Fund

Baring Int Fund Managers Guernsey Ltd

Royal Bank of Canada Fonds

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
69½	66½	NZ 7½pc 1988-92 ...	68½	–½	8 23	12 07
206	206	S Rhod 2½pc Non-Assd..	206	...	–	–
84½	84½	Do. 4½pc 87-92 Assd	84½	....	5 33	9 35

LOANS

Building Societies

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
[illegible]	[illegible]	Do. 3⅞pcIL Ln 2021	100¼xd	[illegible]	4 [illegible]	[illegible]

Public Board and Ind.

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
99	95	Agric. Mt. 5pc '59-89 .	99xd	...	5 05	–
47	45	Met. Wtr. 3pc 'B'	46	....	6 52	10 44

FOREIGN BONDS & RAILS

1989 High	Low	Stock	Price £	+ or –	Div % Gross	Red. Yield
45	40	Greek 7pc Ass ...	40	...	3 50	[illegible]
45	40	Do 6pc 28 Stb Ass......	40xd	[illegible]	3	[illegible]
45	40	Do 4pc Mixed Ass	40xd	.	[illegible]	[illegible]
80	65	Hung 24 Ass	80	.	2.75	[illegible]
[illegible]	[illegible]	Hydro Quebec 15pc 2011.	[illegible]	[illegible]	15 00	[illegible]
[illegible]	[illegible]	Iceland 14½pc Ln 2016..	[illegible]	[illegible]	14 50	[illegible]

AMERICANS

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

LONDON SHARE SERVICE

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AMERICANS—Contd

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INSURANCES

LONDON SHARE SERVICE

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INSURANCES—Contd

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
270	224	Sturge Hldgs 20p	263	.....	F15.0	1.8	7.8	13.9
1190	909	Sun Alliance	1115	-5	41.0	–	4.9	–
1028	853	Sun Life 5p	1010	+5	38.6%	–	5.1	–
£71½	£53½	Taisho M EDR	£59½	-1½	Q10%	–	0.8	–
£55¼	£26¼	Torchmark $1.00	£25¼		Q$1.20	–	2.5	–
164	150	Trade Indemnity Grp.	163	+2	1.4	–	1.1	–
£28⅛	£19	Travelers $1.25	£26⅛	-⅛	$2.40	–	5.8	–
£22¼	£15¾	USF & G Corp $2.50	£20⅝	-⅛	Q$2.80	–	8.6	–
£29½	£18⅞	USLIFE Corp. $1.0	£29		Q$1.40	–	3.1	–
793	503	Wltd Friendly B 10p	745	.....	31.25	2.4	5.6	8.7
265	216	Willis Faber 12½p	243	-4	11.46	1.2	6.3	17.7
48	41	Windsor 10p	42	.....	–	–	–	78.7

LEISURE

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
10	7	A & M Group 10p	7	.....	–	–	–	–
£87½	£77½	Do. 10pc Cr Uns. Ln 1998	£77½	.....	10%	–	17.2	–
170	143	Airtours 10p	163	+1	†8.25	2.7	5.1	9.7
300	195	Anglia TV	261	+2	†7.75	3.1	4.0	10.9
151	113	Avesco 1p	145	-5	61.5	♦	1.1	♦
34	25	BCE Hldgs 5p	26	+1	–	–	–	–
368	275	Barr & W.A.T. 'A'	367	.....	d1.0	0.9	5.1	29.0
22	14	Bond Media	14	.....	15.0	1.7	5.4	14.8
540	225	Boosey & Hawkes	530	.....	Q2c	–	6.9	–
54	35	Border T.V.	46	.....	10.0	2.5	2.5	20.9
403	317	Brent Walker 10p	367	.....	†1.7	2.5	4.9	10.8
117	87	Do 6pc.Cv.Cm.Rd.Pf	105	.....	11.0	♦	4.0	♦
344	245	Campari Int. 20p	273	-5	6.0	–	7.8	–
878	504	Capital Radio 10p	800	-1	8.5	3.9	4.2	7.1
912	662	Carlton Comnctns	835	-14	†10.0	3.6	1.7	22.0
418	268	Castle Comms. 5p	410	-3	†7.3	5.2	1.2	22.5
780	579	Central ITV	776	.....	†7.2	2.1	2.3	24.6
248	126	Chrysalis	170	.....	25.5	2.5	4.4	11.8
198½	101	Cityvision 5p	193	-2	a3.43	0.1	2.6	–
30	17	Classic Th'breds In0.20	19	.....	1.0	6.8	0.7	24.0
368	258	Compass Group 5p	356	.....	–	–	–	–
102½	69½	European Leisure	101½	-½	†7.2	2.7	2.7	18.4
110	68	Ex Lands 10p	73	-1	0.5	–	0.9	–
*117	95	Expedier Leis. 20p	114	-1	–	–	–	37.2
653	457	Fairline Boats 10p	600	.....	†13.5	3.6	3.0	7.9

PAPER, PRINTING, ADVERTISING — Contd

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
85	48	SPS Consit. Grp.	55	.....	‡2.25	0.1	5	–
421	262	Saatchi 10p	323	.....	F16.0	2.3	7.0	7.5
98	73	Do. 6.3pcCvPf£1	74	.....	6.3%	–	11.4	–
109½	90½	Do. 6¾pc Pf 2003	91¼	-½	Q6¾%	–	7.4	–
249	187	St Ives 10p	220	.....	13.0	6.1	1.8	11.9
£32¼	£21¼	Scott Paper	£28⅞	.....	Q80c	–	1.8	–
176	116	Senf Cowells	129	.....	6.0	2.8	6.2	7.4
145	105	Shandwick 1p	133	.....	b1.88	5.1	1.9	11.2
60	46	Shelton (Martin) 10p	48	.....	2.0	2.4	5.6	9.9
350	270	Smith (David S.) 20p	329	-1	†7.0	4.4	2.8	10.6
435	329	Smurfit (Jeffsn.)	372	-3	Q26.9%	♦	1.5	♦
£155¼	£134	Do. 9¾ pc Cr Uns Ln.	£137½	-1	Q9¾%	–	7.3	–
*42	31	Stanco Exhibition 5p.	40	-1	1.0	♦	3.4	♦
256	174	TMD Advertising	254	.....	3.3	3.6	1.8	19.2
50	35	Thorpac Group 2½p	45	.....	1.17	♦	3.5	♦
50	44	Tinsley Robor 5p	47	-1	W2.0	2.7	5.7	8.6
249	179	U.K. Paper 10p	229	-1	4.0	2.9	3.5	11.3
413	353	Usher Walker 10p	358	.....	10.0	3.6	3.7	10.0
210	111	VPI Group 2½p	114	-1	13.5	4.2	4.0	6.5
129	108	Video Tape Rec 5p	116	.....	F2.7	3.4	3.1	12.9
283	182	WCRS Group 5p	278	.....	†5.95	5.0	1.9	13.4
*711	505	WPP Group 10p	637	-1	17.0	2.3	3.7	13.0
*412	267	Wace Group 20p	389	.....	4.0	3.8	1.4	22.5
219	184	Waddington (J.)	184½	-1½	7.3	♦	5.3	♦
*433	375	Watmoughs	375	.....	8.5	3.0	3.0	13.8
73	57	Waverley Camra 5p	58	.....	1.0	♦	2.3	♦
120	85	Wray Macky-Lenk10p	85	.....	4.3	1.9	6.7	10.4
203	148	Yellowhammer 5p	203	.....	3.3	♦	2.2	♦

PROPERTY

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
154	129	Allied London 10p	144	-1	†2.75	3.2	2.5	16.3
130	113	Do. 5¾ pc Cnv Red Pref	127	+1	5¾%	–	6.0	–
236	152	Arlington Sec 10p	206	-1	6.0	3.2	3.9	10.9
180	148	Asda Property 20p	148	-2	1.5	4.2	1.4	23.5
134	117	Do 5¼pc.Cn.Rd.Pf.	117	-1	5¼%	–	5.8	–
75	53	BDA Hldgs. 10p	70	.....	3.5	♦	6.7	♦

OIL AND GAS—Contd

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
9¼	5½	Petrogen Petroleum	8½	.....	♦	–	–	–
*116	95½	Pict. Pet. 5p	115	-1	–	–	–	–
105	63½	Premier Cons. 5p	103½	-½	–	♦	–	36.4
366	275	Ranger Oil	347	-3	–	–	–	–
£40⅞	£31⅞	Royal Dutch Fl 5	£40⅞	-½	Q142%	1.7	4.9	11.7
15½	10	Sandpiper Oil	11	-2	–	–	–	–
184	156	Santos A$0.25c	177	.....	Q18.2c	2.2	5.1	8.9
254	145	Sceptre Res	254	+4	–	–	–	–
436	327	Shell Trans. Reg.	424	-10	17.0	1.9	5.3	13.1
72	67	Do. 7pcPf. £1	73	.....	4.9%	‡	9.2	–
480	328	Silkolene	445	+10	12.0	3.3	3.6	11.2
13	7¼	Southwest Res. 40p	7½	.....	♦	–	–	7.4
191	152	Sovereign Oil	185	-2	–	–	–	–
19½	11½	TR Energy 10p	17½	.....	–	–	–	–
£112	£97½	Texaco 8pc Cnv	£100½	.....	Q8%	–	7.4	–
£51⅞	£32¼	Total-Cie Fr Pet B	£49¼	+⅜	Q30%	♦	5.9	♦
194	142	Triton Europe 5p	191	+1	–	–	–	40.6
79	12½	Tuskar Res Ir 5p	78½	+1	–	–	–	–
*335	285	Ultramar	318	-3	7.5	1.4	3.2	26.0
117	85	Woodside A50c	112	-2	–	–	–	–

OVERSEAS TRADERS

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
120	75	Afex Corp US$1.50	120	+5	09d	3.3	4.1	7.3

MINES—Contd

Tins

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's
45	35	Ayer Hitam SM1	45	..	‡Q53.3c	0.7	‡
75	38	Kaping Bertad M$0.50	75	..	Q10c	2.0	3.3
		For Jantar see Industrials					
84	47	Malaysia Mng. 10c	72	..	Q5c	4.0	1.7
180	120	Petaling SM1	180	..	Q87c	1.0	11.6
150	90	Sungei Besi SM1	125	..	Q70c	1.4	13.5
90	90	Tanjong 15p	90	.....	–	–	–

Miscellaneous

1989 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's
145	69	Anglesey Mining 5p	137	..	–	–	–
83	18	Do Warrants	75		–	–	–
32½	12	Anglo-Dominion	12	-1	–	–	–
520	386	Bond Intl Gold	469	+1	–	–	–
64	39	Butte Mining 10p	42	+1	–	–	–
50	26½	Colby Res Corp	39	..	–	–	–
120	83	Cons Murch 10c	115	..	Q30c	2.1	6.6
78	23	DRX Inc	29		–	–	–
*27½	21	Ennex Int Ir10p	22½	-½	–	–	–
120	108	Europa Minerals 2p	116	+1	b1.0	–	1.1

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or –
Albany Inv 20p	98	.....
Craig & Rose £1	720	.....
Finlay Pkg. 5p	90	+2
Holt (Jos) 25p	1343	.....

IRISH

Stock	Price	+ or –
Cap. 8½% Ln. 1991	£98¼	-⅛
9pc Cap Ln. 1996	£99½	.....
Fin. 13% 97/02	£120	.....
Arnotts	400	.....
Carrol (P.J.)	145	.....
Hall (R. & H.)	145	.....
Helton Hldgs	71	.....
Irish Ropes	200	+10
United Drug	135	-1

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	38
Amstrad	11
BAT	45
BOC Grp	42
BSR	6½
BTR	32
Barclays	42
Beecham	50
Blue Circle	48
Boots	25
Bowaters	44
Brit Aerospace	52
British Steel	7½
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	48
Comm Union	32
Courtaulds	30
FKI Babcock	14
FNFC	22
Gen Accident	85
GEC	20
Glaxo	110
Grand Met	48
GUS 'A'	90
Guardian	18
GKN	34
Hanson	16
Hawker Sidd	60
ICI	100
Jaguar	28
Ladbroke	48
Legal & Gen	26
Lex Service	33
Lloyds Bank	29
Lucas Inds	58
Marks & Spencer	15
Midland Bk	38
Morgan Grenfell	24
Nat West Bk	25
P & O Dfd	55
Plessey	22
Polly Peck	26
Racal Elect	40
RHM	42
Rank Org Ord	80
Reed Intnl	34
STC	32
Sears	10
TI	38
TSB	10
Tesco	14
Thorn EMI	58
Trust Houses	24
T&N	18
Unilever	46
Vickers	18
Wellcome	42

Property	p
Brit Land	32
Land Securities	52
MEPC	50
Randsworth	28

Oils	p
Brit Petroleum	21
Burmah Oil	58
Calor	35
Charterhall	2½
Premier	9
Shell	32
Ultramar	26

Mines	p
Cons Gold	100
Lonrho	38
RTZ	40

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar under pressure

AN INCREASE in West German interest rates yesterday was not entirely unexpected, but was still enough of a surprise to catch some investors off guard. The dollar suffered more than most as other European countries announced a similar rise in rates after the Bundesbank. At the same time, the dollar was under pressure from rumours that the US Federal Reserve was to hold a news conference with a view to cutting its discount rate. This was later officially denied, but sentiment remained coloured against the dollar, and it slipped below DM1.9400 at one point before finishing at DM1.9555 from DM1.9645.

The US unit opened on a weaker note after the Japanese central bank sold dollars towards the close of business in Tokyo. This followed overnight selling by the Fed in New York. The success of the intervention in driving the dollar lower was explained by the relatively low trading volume. Investors were keeping on the sidelines ahead of the Bundesbank meeting and there was also a reluctance to take out fresh positions ahead of the long weekend in the US.

Nevertheless, the dollar's weakness against the yen was restricted by a further loss of confidence in the Japanese unit. This followed renewed pressure on the Prime Minister following allegations about a sex scandal. The dollar touched a low of Y142.10 before recovering to finish at Y143.40, up from Y142.75. Elsewhere, it finished at SFr1.6780 from SFr1.6890 and FFr6.6425 compared with FFr6.6650. On Bank of England figures, the dollar's exchange rate index fell to 71.6 from 71.8.

Sterling failed to hang on to early gains and drifted away to finish at the day's low. Its exchange rate index touched a high of 90.9 during the morning but slipped to 90.5 at the close down from 90.8 on Wednesday. The rise in European rates tended to highlight sterling's vulnerability. Only the support of better than expected trade figures released on Tuesday prevented the pound from falling further. Several economic indicators are due for release next week, and these will have to show a similarly favourable trend if sterling is to avoid renewed downward pressure.

The pound closed at DM3.0350, down from DM3.0575 and slipped in dollar terms to $1.5525 from $1.5560. It was firmer against the weak yen however, at Y222.75 from Y222.00. Elsewhere, it finished at FFr10.3125 from FFr10.3700 and SFr2.6050 compared with SFr2.6275.

The D-Mark improved against the French franc, finishing at FFr3.3968 from FFr3.3910 on Wednesday. At one point it touched a high of FFr3.3970 just ahead of the news that French interest rates were moving higher in response to the rise in German rates. The franc was also depressed by a wider than expected May trade deficit.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June 29	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	7.85212	[illegible]	[illegible]	[illegible]	[illegible]
German D-Mark	2.05853	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	6.90403	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	2.31943	[illegible]	[illegible]	[illegible]	[illegible]
Irish Punt	0.768411	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	1483.58	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

[illegible]

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

§ Sterling quoted in terms of SDR and ECU per £. † European Commission Calculations. * All SDR rates are for June 28

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

*Selling rate

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Short sterling rallies

SHORT STERLING futures weakened on Liffe yesterday, following the rise in West German interest rates, but rallied to finish well above the day's low. The timing of the Bundesbank's move surprised traders, but was seen as an attempt to reduce inflationary pressure in the economy ahead of important wage negotiations involving the main engineering union later this year.

Although higher German rates inevitably led to some speculation about the Bank of England being forced into a similar move, the short sterling contract reacted well to the situation. Dealers pointed out that if the Bundesbank had increased rates a week earlier sterling would have come under intense pressure and confidence in the short sterling contract may have collapsed, but although the pound and short sterling weakened yesterday there was no sign of loss of confidence.

Dealers were particularly encouraged, because this was seen as the first time this year that the sterling markets had been able to absorb bad news.

A price of 86.00 for September short sterling is in line with base rates of 14 per cent, with a technical support level at 85.75 and possible resistance at 86.25. The contract touched 85.75 yesterday, but rallied encouragingly to close at 85.84 compared with 86.00 on Wednesday.

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE BUND FUTURES OPTIONS

[illegible]

LIFFE £/$ OPTIONS

[illegible]

LIFFE EURODOLLAR OPTIONS

[illegible]

LIFFE SHORT STERLING

[illegible]

LONDON (LIFFE)

[illegible]

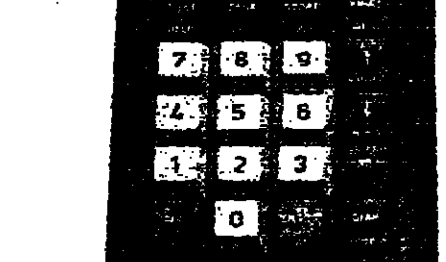
PHILADELPHIA SE £/$ OPTIONS

[illegible]

CHICAGO

[illegible]

KEY MARKETS KEY INFORMATION



KEYPAD.

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EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 57,022

A=Ask B=Bid C=Call P=Put

JOTTER PAD

MONEY MARKETS

European rate rise

THE WEST German Bundesbank surprised the financial markets with the timing of yesterday's rise in official interest rates. At a meeting of the central bank council the discount rate was increased by 0.50 per cent to 5 per cent and the Lombard emergency financing rate by a similar amount to 7 per cent.

The central bank was known to be concerned about rapid growth in the German economy, but a recent easing of money supply growth and lower import prices had created the impression the Bundesbank would wait a little longer before tightening monetary policy.

UK clearing bank base lending rate 14 per cent from May 24

The rise in German rates forced a response from central banks in Switzerland; the Netherlands; Denmark; Austria; France and Belgium.

The Swiss National Bank raised its discount rate by 0.50 per cent to 5.5 per cent and maintained its flexible Lombard rate system. The Dutch National Bank increased its discount rate by 0.50 per cent to 6 per cent and raised other official rates. Denmark also increased its official interest rates by 0.50 per cent, while the Austrian National Bank raised its discount rate by 0.50 per cent to 5.5 per cent and its Lombard rate by a full point to 7.5 per cent. The Bank of France increased its money market intervention rate by 0.50 per cent to 8.75 per cent and its 5 to 10-day securities repurchase rate by the same amount to 9.50 per cent. The Belgian National Bank raised its discount rate by 0.50 per cent to 9.25 per cent and its advances rate, equivalent to the Lombard rate, by the same amount to 9.50 per cent.

There was no official reaction in London to the rise in three other European rates, but three-month sterling interbank firmed to 14⅛-14 per cent from 14-13⅞ per cent.

The Bank of England initially forecast a credit shortage of £450m on the London money market, but revised this to £650m at noon and to £700m in the afternoon. Total help of £618m was provided.

Before lunch the authorities bought £82m bank bills in band 1 at 13⅞ per cent. In the afternoon another £206m bills were purchased, by way of £20m Treasury bills in band 1 at 13⅞ per cent and £186m bank bills in band 1 at 13⅞ per cent. Late assistance of around £330m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £144m, with Exchequer transactions absorbing £110m; a rise in the note circulation £85m; and bank balances below target £100m.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 29)	3 months US dollars		6 months US Dollars	
	bid 9¼	offer 9⅜	bid 9¼	offer 9⅜

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

[illegible]

LONDON MONEY RATES

[illegible]

BASE LENDING RATES

	%		%		%
ABN Bank	14	Clydesdale Bank	14	NatWestminster	14
Adam & Company	14	Comm.Bk.N.East	14	Northern Bank Ltd	14
AAB - Allied Arab Bk	14	Co-operative Bank	*14	Norwich Gen. Trust	14
Allied Irish Bank	14	Coutts & Co	14	PRIVATbanken Limited	14
● Henry Ansbacher	14	Cyprus Popular Bk	14	Provincial Bank PLC	15
Associates Cap Corp	14	Dunbar Bank PLC	14	R. Raphael & Sons	14
Authority Bank	14	Duncan Lawrie	14	Roxburghe G'rantee	14½
● B & C Merchant Bank	14	Equatorial Bank plc	14	Royal Bk of Scotland	14
Bank of Baroda	14	Exeter Trust Ltd	14½	Royal Trust Bank	14
Banco Bilbao Vizcaya	14	Financial & Gen. Bank	14	● Smith & Williamson Secs.	14
Bank Hapoalim	14	First National Bank Plc.	15	Standard Chartered	14
Bank Credit & Comm	14	● Robert Fleming & Co.	14	TSB	14
Bank of Cyprus	14	Robert Fraser & Ptnrs.	14½	United Bk of Kuwait	14
Bank of Ireland	14	Girobank	14	United Mizrahi Bank	14
Bank of India	14	● Guinness Mahon	14	Unity Trust Bank Plc	14
Bank of Scotland	14	HFC Bank plc	14	Western Trust	14
Banque Belge Ltd	14	● Hambros Bank	14	Westpac Bank Corp.	14
Barclays Bank	14	Heritable & Gen Inv Bnk	14	Whiteaway Laidlaw	14
Benchmark Bank PLC	14	● Hill Samuel	§14	Yorkshire Bank	14
Berliner Bank AG	14	C. Hoare & Co.	14		
Brit Bk of Mid East	14	Hongkong & Shangh	14		
● Brown Shipley	14	● Leopold Joseph & Sons	14		
Business Mtge Tst	14½	Lloyds Bank	14		
CL Bank Nederland	14	Meghraj Bank Ltd	14		
Central Capital	14	McDonnell Douglas Bnk	14		
● Charterhouse Bank	14	Midland Bank	14		
Citibank NA	14	Mortgage Express Ltd.	‡13.75		
City Merchants Bank	14	Mount Banking	14		
		Nat Bk. of Kuwait	14		

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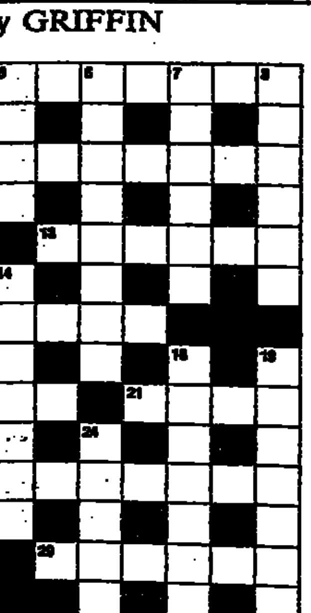
CROSSWORD

No.6,973 Set by GRIFFIN



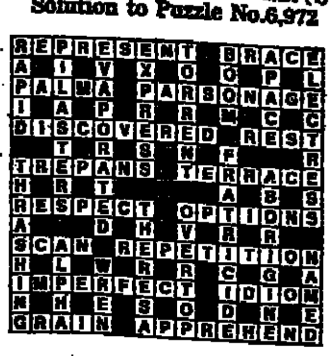
ACROSS

1 Bill has royal mug (6)
4 Soldier gets order to duck (8)
9 Engineers left statement (6)
10 Posts as it's not folded (8)
12 Choke and accelerator (8)
13 Girl removing ends of some fish (6)
15 Time for one kiss in Rome? (4)
16 Unethical and more pointless in mail distribution (7)
20 Manage to live on advances? It's wrong! (7)
21 Fairy returns a tiny jumper (4)
25 Scold Lawrence after bear runs wild (6)
26 Journalist returned and stopped late (8)
28 Say devious head cook accepted extra wood (8)
29 Good man on the Circle Line (6)
30 Untidiness could put you in hospital! (8)
31 Large bottle with colours on (6)

DOWN

1 Tenor I trained is after degree as singer (8)
2 Plain woolly papa ripped (8)
3 Gets upset about introducing birds (6)
5 Missing first boat to Holyhead, curse (4)
6 Motherly redhead let a man turn round (8)
7 Fool one old eccentric (6)
8 Secretive person in ramshackle store said why (6)
11 Glance at big end requiring simple conversion (7)
14 Slightly wet, so it could be swallowed by males (7)
17 Buyer cuts Rome out (8)
18 Opening batsman getting singles off Grace (8)
19 Accountant daring to change sweater (8)
22 A retiring sub-editor is reviled (6)
23 Clergyman and arbitration body quarrel (6)
24 Chaste undergarment the Parisian rejected (6)
27 Dairy food lines I ate last (4)

Solution to Puzzle No.6,972



WORLD STOCK MARKETS

AUSTRIA

June 29	Sch	+ or −
Austrian Airlines	2,100	—
Creditanstalt	2,700	—
Goesser	3,568	—
Interunfall	18,600	+100
Jungbunzlauer	15,450	—
Laenderbank	459	+10
Perlmooser	1,385	—
Reininghaus	1,430	—
Semperit	238	—
Steyr-Daimler	118	—
Veitscher Mag	857	+2
Verbund	189	—

BELGIUM/LUXEMBOURG

June 29	Frs.	+ or −
Arbed	6,150	−120
B.B.L.	3,480	—
Bank Int. a Lux	15,300	+100
Banque Gen. Du Lux	14,500	—
Banque Nat Belg	37,375	+375
Bekaert B	14,475	−25
Ciment CBR	6,750	−50
Cobepa	5,880	−10
Do. AFV 2	5,800	−80
Do. AFV 2	5,810	−60
Cockerill	368	−6
Colruyt	16,400	+500
Delhaize	5,860	+60
EBES	4,570	−10
Do. AFV 1	4,550	+20
Do. AFV 2	4,550	—
Fabrique Nat	806	+4
GIB Group	1,360	−8
Do. AFV	1,362	−6
GBL (Brux)	4,560	+10
Do. AFV 1	4,510	—
Do. AFV 2	4,510	—
Gechem	1,046	−6
Do. AFV	1,054	−2

FRANCE (continued)

June 29	Frs.	+ or −
Alsthom	595	−15
Arjomari-Prioux	2,551	+1
Auxiliaire d'Ent.	1,039	−21
BIC	740	−2
BSN	665	−13
Bancaire Cie	519	−14
BNP (Cert. Inv.)	397	−8
Beghin-Say	657	−25
Do. Certs	440	−9
Bongrain	2,998	−40
Bouygues	660	+6
CMB Packaging	668	−11
Carrefour	3,140	−3
Casino	206	−5
Cetelem	612	−11
Chargeurs	1,181	−35
Ciments Fr.	1,500	−63
Club Mediterranee	655	−9
Cofimeg	351	−8
Coparex	361	+1
CGE	434.9	−5.1
Coparex	309	−3
Cred Foncier Fr	850	+1
Credit National	1,052	−20
Damart	2,961	−9
Docks de France	3,570	−30
Dollfus-Mieg	525	−15
Dumez S.A.	971	−23
Eaux (Cie Gen)	2,002	+50
Ecco	2,245	−24
Electrofin're	1,006	−6
Elf-Aquitaine	539	−6
Do. Certs	435	−9
Essilor	3,280	−50
Eternit (Fin.)	2,650	−50
Euralrance	1,585	−25
Eurocom	1,550	−10
Euromarche	2,750	+1
Exor	1,310	−1

GERMANY (continued)

ITALY (continued)

SWEDEN

NETHERLANDS

SWITZERLAND

NORWAY

SPAIN

SOUTH AFRICA

DENMARK

FINLAND

JAPAN

AUSTRALIA

HONG KONG

SINGAPORE

CANADA

TORONTO
2pm prices June 29

INDICES

NEW YORK DOW JONES

CANADA

NEW YORK ACTIVE STOCKS

TOKYO - Most Active Stocks

Thursday June 29 1989

3pm prices June 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
32¼	21¾	AAR	.44	1.5	20	336	30¾	30	30	– ¼
10⅛	8¾	ACM n	1.01	11.		120	9⅞	9¾	9⅞	
11⅞	10¾	ACMIn	1.28a	11.		504	11⅛	11	11⅛	+ ⅛
10⅛	8½	ACM M	n1.01	11.		196	9½	9⅜	9⅜	
11⅜	10	ACM Sc	1.26	11.		783	11⅛	11	11⅛	
9⅞	8⅞	ACMSp	1.01	11.		361	9¼	9⅛	9⅛	– ⅛
17¼	10⅞	AL Lab	.12	.7	18	132	16¾	16½	16½	– ¼
4⅜	3⅛	AMCA	.12e	3.0	27	1	4	4	4	
6⅛	4⅛	AM Intl				787	5⅜	5⅛	5⅛	– ⅛
23½	19⅛	AM In pf	2	9.5		8	21⅛	21	21	– ⅛
98½	40⅞	AMR			7	3438	64	61½	61⅝	–2⅛
27	25	ANR pf	2.67	10.		5	25¾	25¾	25¾	
5⅞	3⅝	ARX				346	3⅞	3¾	3⅞	
48¼	35¾	ASA	3a	7.3		642	42	40⅝	40⅞	– ¾
22⅜	15¾	AVX	.24	1.3	9	341	19¾	18¾	19	–1
61⅛	48½	AbtLab	1.40	2.4	17	1983	59	58	58⅛	–1
19	15⅜	AbitiBl g	1			611	15⅝	15⅜	15⅜	– ⅜
13	7½	AcmeC	.40	3.4		486	11⅞	11¾	11¾	– ⅜
8	5⅞	AcmeE	.32	4.1	18	6	7⅞	7⅞	7⅞	
34⅜	20⅛	Acuson			26	282	33	32⅛	32⅛	– ⅞
16⅞	14⅛	AdaEx	1.82e	12.		368	15½	15⅛	15⅛	– ⅛
16⅞	7⅛	AMD				3567	10	9⅝	9⅝	– ⅜
49½	28⅛	AMD pf	3	9.1		1	33	33	33	– ⅛
11⅝	6½	Adobe				899	11⅛	11	11	– ⅜
18½	16½	Adob pf	1.84	9.9		25	18½	18½	18½	
21⅞	19⅞	Adob pf	2.40	11.		1	21⅛	21⅛	21⅛	
9⅞	6⅜	Advest	.12	1.7	16	15	6⅞	6⅞	6⅞	
56⅛	43½	AetnLf	2.76	5.0	9	988	55⅞	55⅛	55⅛	– ¼
14	12⅜	AflPb				1329	12⅞	12½	12⅝	– ⅜
23⅛	14⅜	Ahmans	.88	4.1	10	2074	21⅞	21⅝	21⅝	– ½
4⅞	2¼	Aileen				43	2⅜	2½	2⅜	+ ⅛
52¼	37⅞	AirPrd	1.52	3.2	10	1912	41	40½	40⅝	– ⅛
28⅛	15½	AirbFrt	.60	2.1	28	493	28⅜	28	28	– ⅛
24½	13⅜	Airgas			14	130	23¼	22⅞	22⅞	– ⅜

Continued on Page 47

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls. 100s	High	Low	Close Quote	Ch'ge Prev. Close
7-16	7-64	Regal				37	3-16	3-16	3-16	
8¼	5⅞	RegIFn	.25e	3.1		85	8¼	8⅛	8¼	
16¼	12½	ReichTg	1.75	13.	9	18	14	13¾	13¾	− ⅛
6¼	4¼	RelGrp	.32	5.4	12	69	6⅞	6¼	6⅞	
18¾	16⅛	Repsol n				2112	18⅛	17⅝	17⅝	− ½
6⅞	4¼	RepGyp	.20	4.1	20	121	5¼	4⅞	4⅞	− ½
50¼	41	RepNY	1.28	2.6	10	233	49½	49	49	− ⅜
24⅞	13⅞	Rsane n	1	7.3	3	288	14⅛	d13⅝	13⅝	− ⅝
33⅞	17⅛	RayRey	.76	3.1	9	402	25	24¼	24⅝	− ⅜
52¼	47¼	RaynMl	1.60	3.1	5	1881	52⅛	51	51⅝	− ⅜
39	29⅛	RiteAid	.82	2.3	16	317	37	35¼	35¼	−1¼
1	3-16	RvrOak				17	7-32	7-32	7-32	−1-32
19⅝	6⅝	Robesn				80	10⅞	10⅝	10⅝	− ¼
30⅝	21⅞	vjRobins			12	681	29¼	29⅜	29⅜	− ⅜
20⅞	18½	RochG	1.50	7.4	9	716	20⅞	20⅛	20⅝	− ⅛
74½	44½	RochTl	2.64	3.9	15	456	72½	72	72⅝	− ⅛
20⅝	18½	RckCtr	1.84	9.5	17	402	19½	19¼	19⅝	
29½	18⅝	Rockwl	.78	3.6	7	1658	22⅝	22⅛	22⅛	− ⅜
9⅝	4⅞	RodRen				105	5¼	5¼	5¼	
37⅝	30¼	RoHaas	1.12	3.5	10	829	33⅞	32⅛	32¼	−1⅝
37⅞	25⅝	Rohr			15	706	29¼	28¼	28⅜	− ⅝
16⅞	9	RollnE s	.06	.6	30	1825	10⅝	10½	10½	− ¼
20⅞	15¼	Rollins	.54	2.6	19	110	u21	20⅝	20⅝	− ⅛
46¼	33⅝	Rorer	.80	2.2	18	1086	37⅛	36⅜	36⅜	− ½
8⅛	4½	Rowan				1795	8⅝	8⅛	8⅝	− ¼
68½	62¼	RoylD	e3.32e	5.3	9	3648	63⅞	62¼	62⅞	−1⅛
16	8¼	Roylnt	.20e	1.4	14	324	14⅝	14⅛	14⅛	− ⅛
9⅞	7¼	Royce	.51e	5.5		275	9⅞	9½	9⅝	− ¼
32	21¼	Rubmd	.44	1.4	22	766	31	30½	30½	− ½

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls. 100s	High	Low	Close Quote	Ch'ge Prev. Close
69	51¼	Xerox	3	4.8	17	3204	63¾	62½	62¾	−1⅜
45⅞	44½	Xerox	pf4.13	9.1		2	45¾	45⅞	45⅞	+ ⅛
44¼	30⅛	XTRA	.72	2.3	15	122	31	d30⅝	30⅝	− ⅜
33	25	XTRA	pf1.94	7.5		104	26	25⅞	25⅞	+ ⅛
3⅛	2	Zapata				606	2⅛	2⅛	2⅛	− ⅛
15½	10⅛	Zemex	.40	3.3	156	10	12⅛	12	12⅛	+ ⅛
28⅝	18⅞	ZenithE			950	1174	19⅛	18⅞	19	− ⅛
10⅝	8⅞	Zeninc	1.26	14.		195	9⅛	8⅞	9¼	
2⅞	1	vjZenLb				306	1½	1⅝	1½	
21½	15	ZenNtl	.84	4.4	9	63	19	19	19	− ⅛
22	14⅛	Zero	.44	2.1	16	130	21⅛	20¼	20⅞	− ½
38⅞	20	Zurnln	.65	1.8	16	455	37⅞	37	37	− ⅛
11⅝	10	Zweig	1.08e	9.7		687	11⅝	11⅛	11⅛	− ⅛
10⅛	8⅞	Zweig n	.96	10.		1821	9⅝	9⅛	9½	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices June 29

OVER-THE-COUNTER

Nasdaq national market, 3pm prices June 29

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
Wilmgt	1.45	7	35	42¼	42	42⅝	
WilmTr	1.24	12	778	u39½	38⅞	38¾	+ ¼
WiserO	.40	50	180	16⅛	15⅞	16	− ⅛
Wolohn	.28	9	61	17¼	17	17	− ¼
WrldEx b			140	6⅝	6⅛	6½	− ⅛
Worthg	.48	14	728	22⅛	22	22	− ⅛
Wyman	.80	73	1277	20	19½	19⅝	− ⅛
			−X−Y−Z−				
XL Data s		17	249	21¼	20⅞	20⅞	−1
XOMA			1351	17¼	16⅛	16¼	− ½
Xicor		6	773	6½	d 6¼	6⅛	
YelowF	.70	10	2216	27	26⅞	26⅞	− ⅛
ZionUt	1.44		24	25	25	25	− ½
Zycad			137	2⅞	2⅛	2⅞	+ ⅛

FINANCIAL TIMES Friday June 30 1989

AMERICA

Bundesbank move undermines Dow

Wall Street

NERVOUSNESS about the market's outlook in the wake of the West German Bundesbank's increase in key interest rates pushed stocks sharply lower in active, midday trading on Wall Street yesterday, *writes Karen Zagor in New York.*

At 2pm the Dow Jones Industrial Average was down 40.97 points at 2,463.77.

Volume was moderately heavy. Declining issues outpaced those advancing by more than four to one.

Stock index futures were also sharply lower in brisk trading. At 1.30pm the Standard & Poor's 500 index was down 4.62 points at 321.19.

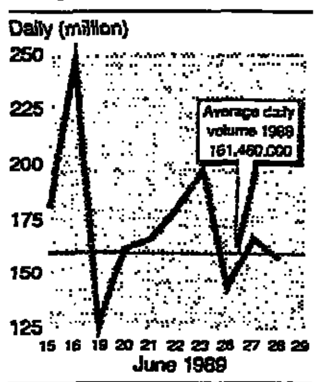
The fall in equities came in spite of a recovery in the debt market, which saw the Treasury's bellwether 30-year bond up ¼ of a point at 108¼ in midsession trading, yielding 8.09 per cent. The Federal Reserve arranged overnight system repurchase agreements when Fed funds were at 9⅝ per cent.

The dollar also regained its early losses on the news that seven European nations had raised their rates. It traded at Y143.45 and DM1.9515 at midday, from 142.00 and DM1.9605 late Wednesday in New York. The US currency has benefited from continuing weakness of the yen because of uncertainty over the future of the Japanese Prime Minister.

Crude oil futures rose in active trading on the New York Mercantile Exchange. August crude was trading up 42 cents at $20.45 a barrel from an opening level of $19.95. September was up 20 cents at $19.50 a barrel.

Nevertheless, oil company issues declined, in part as a result of profit-taking after the big gains of the previous two days. Phillips Petroleum fell $⅛ to $22⅝ in busy trading. Occidental Petroleum was down $⅜ at $27¾ and Chevron fell $⅛ to $54⅞.

Shares in Banc One, the Ohio-based commercial bank, defied the downward tone in the market to trade up $5⅛ at $33⅛ after the company announced the acquisition of the failed MCorp banks from the Federal Deposit Insurance Corporation. The issue was the most active in morning trading on the New York Stock Exchange.



IBM was down $1⅛ at $112⅝ amid growing concern that a strong US currency would cut into the company's profits. About half of IBM's sales revenue is generated abroad.

Similar worries affected shares of Coca-Cola, which dropped $⅞ to $57⅞. Exxon, which lost $⅛ to $44⅞, and Ford, which fell $⅝ to $48⅞.

Paramount dropped $1⅛ to $51⅞ after announcing that it had found the extra financing to raise its bid for Time Inc to $200 a share from $175 a share. Time was down $1⅞ at $155⅞.

Kansas City Southern Industries leapt $8⅞ to $44⅞ after a Federal appeals court overturned a ruling that would have resulted in the company paying $344.2m in damages to South Dakota in an anti-trust dispute.

Amdahl, the manufacturer of large computer systems, plunged $3⅛ to $16⅝ on the American Stock Exchange. The company expects second quarter earnings to drop by between 25 and 30 per cent in spite of an expected 20 per cent increase in revenue.

Canada

A LISTLESS bond market and a sell-off in New York kept stocks in Toronto lower at midsession. Investors also appeared to be reluctant to take positions before the long holiday weekend.

The composite index fell 14.5 to 3,752.1 with declines leading advances by 239 to 220 on volume of 17m shares.

Long road back to dizzy heights

Alison Maitland on how far the world has come since the crash

AFTER a buoyant first half year, most of the world's equity markets have now recovered to the levels they were at just before the global crash on October 19, 1987.

A significant number, from giant Japan to tiny Austria, are moreover enjoying the rarefied atmosphere in the regions above their pre-crash peaks. But the majority still have some way to go before regaining those dizzy heights, and a fairly large minority are still struggling on the lower slopes to recoup the ground lost in the crash 20 months ago.

Although the US fell sharply in the week before October 19, most worldwide losses were concentrated on that and subsequent days, so the "pre-crash level" is defined as the close of business on October 16, 1987.

The worst stragglers are New Zealand, Hong Kong and South Africa. The New Zealand Barclays index (close June 28) is still 47 per cent below its level on October 16, 1987, and 51 per cent below its all-time peak of 3,968.89, reached on September 18, 1987.

The Hang Seng index in Hong Kong, the only market to show a loss this year because of the China crisis, languishes 41 per cent below its pre-crash level and 43 per cent beneath its October 1, 1987, record of 3,949.73. South Africa's Gold index is 34 per cent down on its pre-crash level and 39 per cent below its high of 2,499.0, reached on August 3, 1987.

Australia has not fared much better, with its All Ordinaries index 29 per cent below the pre-crash level and 34 per cent beneath its previous peak of 2,305.9 on September 21, 1987.

Other markets still below their pre-crash levels are Singapore, the UK (FT-A All-Share), Ireland and Italy.

A good number of European bourses have not only regained those levels but improved on their pre-crash peaks. Denmark leads the climbing team, having risen 60 per cent from its pre-crash level and 34 per cent from its 1986 record of 250.70. Austria, Sweden, Finland, Belgium and Norway are all on new ground.

Even two of the bigger markets, France and Switzerland, are respectively 6 per cent and 2 per cent above their previous all-time highs, while the Netherlands is just 1.5 per cent below.

RELATIVE PERFORMANCE	% change on Oct 16 '87	% change on pre-crash record high
Australia	−29	−34
Austria	+54	+29
Belgium	+27	+13
Canada	+5	−8
Denmark	+60	+34
Finland	+19	+15
France	+32	+6
West Germany	+0.7	−18
Hong Kong	−41	−43
Ireland*	−4	−9
Italy	−1	−29
Japan	+26	+25
Malaysia	+8	−6
Mexico*	+13	−0.8
Netherlands	+14	−1.5
New Zealand	−47	−51
Norway	+12	+8
Singapore	−6	−13
South Africa	−34	−39
Spain	+1	−5
Sweden	+34	+29
Switzerland	+6	+2
UK	−5	−9
USA	+15	−3
World*	+10	+3

Based on June 28, 1989
* FT-Actuaries World Indices (local currencies)

West Germany and Italy, which peaked in April and May 1986 before settling into long-term bear markets, are finally back close to their pre-crash levels but are, respectively, 18 per cent and 29 per cent below their all-time highs.

The US and Canada are also in this midway stage, having improved on their October 16, 1987, levels. The S&P Composite index is just 3 per cent from its all-time peak of 336.77 on August 25, 1987, and the Toronto Composite is 8 per cent below its high of 4,112.90 on August 13 that year.

The local currency FT-Actuaries World Index has risen 3.4 per cent above its previous record of August 1987, helped by the strength of Japan, where the Nikkei average has climbed 25 per cent from its October 14, 1987, peak of 26,646.43.

Mexico provides a vivid illustration of the depths plumbed during the crash. It has outperformed most markets this year by soaring nearly 80 per cent, yet has still not quite returned to its all-time high reached on October 7, 1987.

ASIA PACIFIC

Nikkei suffers further fall as political clouds gather

Tokyo

ANOTHER fall in the Japanese market came in thin trading as political uncertainty increased, *writes Yuriko Mita in Tokyo.*

The market opened lower as investors remained cautious after the Nikkei average's largest plunge of the year during the Wednesday session, when it fell more than 500 points before regaining some ground towards the close.

Although the market received moderate support yesterday from small-lot purchases of high-priced stocks, the Nikkei closed down 289.29 at 32,956.31, after drifting between a high of 33,223.03 and a low of 32,922.50.

Falls outnumbered gains by 519 to 397, while 166 issues remained unchanged. Volume was a low 423m shares after Wednesday's 612m.

The Topix index of all listed shares fell 12.24 to 2,453.99. But in London the ISE/Nikkei 50 index rose 4.06 to 1,949.78.

Caution was the watchword in the politically unstable climate brought about by rumours of Prime Minister Sousuke Uno's possible resignation on Wednesday. The ruling Liberal Democratic Party is expected to suffer substantial losses in the forthcoming Tokyo Metropolitan Assembly election, and one analyst said many investors would stay on the sidelines until the results of the election were released.

The yen's continuing weakness did not help the market. Although the Bank of Japan intervened in the currency market, it could not stop the yen's decline.

The buying that did occur was mainly of high-priced, small-capital issues such as pharmaceuticals, high technology companies and makers of office equipment, as investors attempted to gain quick profits. Yamanouchi rose Y60 to Y3,590 and Taisho Pharmaceutical climbed to a high for the year of Y2,550, up Y140.

Okamura, the largest manufacturer of office furniture, was the most actively traded stock, with 12.68m shares changing hands. In morning trading it rose to Y1,560, a record high, closing Y60 up at Y1,550.

In the high technology sector, Kyocera spurted ahead Y280 to a year high of Y5,730, aided by the dollar's strength against the yen.

The second most active issue was Sumitomo Metal, losing Y23 to Y785, with 6.69m shares changing hands. Most large-capital issues faced selling.

Interest returned to Yamatane-Honeywell, the leading automation equipment maker, after investors had taken profits for three sessions. It was third most active stock, on a volume of 6.25m shares, and gained Y230 to Y3,570, attracting attention because of its low price-earnings ratio.

The Osaka Stock Exchange average lost 119.18 to 32,380.87. Volume was 57.45m.

Roundup

LEADING Asia Pacific markets all moved higher, with Singapore hitting a post-crash peak.

SINGAPORE rose to a post-crash high, extending its run of gains to three consecutive sessions. The Straits Times industrial index added 6.85 to 1,315.29 in heavy turnover of 163m shares.

AUSTRALIA was boosted by technical moves by institutions, although profit-taking tipped shares off their highs. The All Ordinaries index ended 5.7 higher at 1,524.7, after touching 1,530.5, on volume of 132m shares worth A$264m.

IEL, which faces a takeover bid from Goodman Fielder Wattie, was active with 7.28m shares traded, finishing unchanged at A$2.10. Goodman Fielder lost 2 cents to A$2.11.

Advances included BHP, due to announce results soon, which rose 10 cents to A$8.84.

Bell Resources fell 17 cents, or 19 per cent, to 73 cents. Earlier this week, the Australian Stock Exchange cleared its purchase of the brewing interests of its parent, Bond Corp, which eased 2 cents to 90 cents.

HONG KONG was lifted by bargain hunters and technical moves before the end of the first half of the year – these latter adjustments particularly boosted stocks included in the Hang Seng index. The index moved up 30.27 to 2,275.22 on modest turnover of HK$570m.

SOUTH AFRICA

A FIRMER bullion price helped gold shares close firmer in Johannesburg yesterday, but a stronger financial rand restricted gains.

EUROPE

Interest rate rises send out nervous ripples

A ROUND of interest rate rises in Europe left many bourses weaker, although generally off their lows. Frankfurt emerged unscathed, however, *writes Our Markets Staff.*

FRANKFURT took the largely unexpected interest rate rise by the Bundesbank in fairly positive fashion, losing early gains but recovering to finish slightly higher and holding steady in the after-market.

News of the ½ point rise in the Lombard and discount rates came after the close, but fears that it was in the offing grew during the session. "Mr Pierre Bérégovoy [French Finance Minister] let the cat out of the bag that the European banks were consulting and the market became a little bit wary that something was afoot," said an analyst.

Nevertheless, the DAX index finished 0.54 above the previous day's level at 1,491.93 after climbing to 1,497.25. The midsession FAZ added 0.61 to a post-crash high of 618.44. Turnover was active at DM6.54bn.

The market appeared to be taking a longer-term view of the rates increase, regarding any moves to support the D-Mark and reduce inflationary pressures as positive.

The most active stock was Deutsche Bank, with DM835m worth of shares traded. It closed DM13.50 higher at DM601.50, boosted by speculation that it will raise its dividend. The bank also reported first quarter profits up 14 per cent and has been holding analysts' meetings.

Daimler, which announced a one-for-10 rights issue on Wednesday, lost DM12.50 to DM706.50 after going ex a DM12 dividend.

PARIS ended sharply down but off its lows after being hit by a series of blows on the economic front. A much wider trade deficit in May, reaching FFr6.6bn after FFr3.7bn in April, sent the market straight down at the opening, but it stabilised and was picking up by mid-morning.

Then came news that French interest rates would follow a rise in West German ones, which duly happened, catching traders while they were at lunch. Further falls in the afternoon were eased by some late bargain-hunting.

The OMF 50 index lost 8.16, or 1.6 per cent, to 492.86, and the CAC 40 was 20.41 lower at 1,781.98. The opening CAC General shed 6.93 to 481.47. Turnover was estimated between FFr2bn and FFr2.5bn.

Générale des Eaux, the diversified utility, rose FFr50 to FFr2,002 against the trend on large volume of 44,000 shares following its annual general meeting at which it raised its forecast for profits growth this year to 20 per cent. Institutions are reported to have been buying aggressively.

Peugeot disappointed by losing FFr10 to FFr1,715 when some people had expected it to pick up after positive news from its annual general meeting on Wednesday.

MILAN moved higher again in a session marked by very little news in volume estimated at a moderate L200bn. One analyst said the raising of interest rates elsewhere in Europe was likely to calm the market down a bit. The Comit index picked up 2.51 to 650.41.

The insurance sector provided much of the interest, with Generali gaining L730 to L43,130, reaching L43,200 after the close, and RAS, which reported slightly lower annual profits, unchanged at L26,350, but rising to L26,600 later.

AMSTERDAM closed at the day's lows after the Dutch central bank announced it would raise interest rates. The CBS tendency index fell 2.3 to 188.0.

Amev, the insurer, shed 70 cents to Fl 54.30. The Government said it planned to remove curbs on banks and insurers which bar them from investing in each other's equity and limit their rights to co-operate with competitors abroad; Amev plans to co-operate with VSB, the Dutch bank, and the two have swapped some shares.

ZURICH eased slightly on profit-taking, with news that the Swiss National Bank had raised the discount rate by 1 point coming after the close. The Crédit Suisse index slipped 1.2 to 608.5.

MADRID ended little changed, with some interest in banking and construction stocks. The general index was 0.09 easier at 312.05 in turnover estimated at $90m.

Telefonica shed 1 percentage point to 200.5 per cent of par but was marked up in New York trading after announcing a 13 per cent rise in first five months' profit.

Once, the national association for the blind which is also the country's largest private institutional investor, bought oil group Repsol's shares, pushing them up 13.75 to 444.25. The Kuwait Investment Office is also reported to have been a recent buyer.

BRUSSELS eased under pressure from the European interest rate rises. The cash market index fell 9.95 to 6,110.99.

There was further speculation about stake-building at Raffinerie Tirlemontoise, the foods and sugar group, which closed unchanged at BFr2,120 as a heavy 45,000 shares changed hands.

STOCKHOLM finished a slack trading day slightly lower. The Affärsvärlden General index fell 3.7 to 1,225.2.

Foreign buyers pushed free B shares in Ericsson up SKr2 to SKr582. Ericsson shares accounted for one third of the day's volume of SKr336m.

COPENHAGEN was little changed. Expectation of good results from Nordisk Fjer helped lift it DKr2 to DKr271.

OSLO edged lower after the rate rises in Europe. The all-share index fell 5.09 to 490.67.

IFC EMERGING MARKETS INDICES

Market	No. of stocks	PRICE May 1989	% Change on April (Dollar terms)	% Change on Dec 31 '88 (Dollar terms)	May 1989	% Change on April (Local currency terms)	% Change on Dec 31 '88 (Local currency terms)	TOTAL RETURN May 1989	% Change on April (Dollar terms)	% Change on Dec 31 '88 (Dollar terms)
Latin America	(158)	244.55	−0.2	60.0	–	–	–	335.51	1.9	67.4
Argentina	(24)	204.46	31.2	15.1	200,560.09	227.3	1,149.7	244.31	32.2	23.9
Brazil	(56)	185.32	−6.5	100.8	64,640.80	4.6	213.1	266.48	−4.2	110.8
Chile	(25)	553.45	2.1	21.1	1,081.44	2.5	22.8	889.96	3.8	28.1
Mexico	(53)	439.79	13.4	26.6	5,595.26	15.0	34.2	582.27	14.6	29.8
Asia	(204)	439.48	15.8	51.8	–	–	–	547.55	16.0	54.3
Korea	(61)	481.08	−2.1	−0.2	367.44	−2.1	−3.0	809.19	−1.8	2.6
Malaysia	(62)	131.37	2.3	20.6	145.72	2.3	19.8	154.69	2.6	22.2
Taiwan,China	(62)	1,350.26	28.6	102.9	885.85	23.8	86.4	1,481.74	28.7	104.4
Thailand	(19)	280.47	7.6	28.5	268.10	9.7	32.4	503.14	7.7	39.5

Source: International Finance Corporation. Base date: Dec 31,1984.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of stocks per grouping)	WED JUNE 28 1989 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	TUE JUNE 27 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1989 High	1989 Low	Year ago (approx)
Australia (84)	131.45	−0.4	125.25	115.41	+0.8	5.11	131.96	124.97	114.53	157.12	128.28	139.28
Austria (19)	119.67	−1.2	114.02	122.05	−0.4	2.22	121.08	114.67	122.58	124.16	92.84	84.53
Belgium (63)	128.62	−0.5	122.56	130.53	+0.0	4.19	129.29	122.45	130.57	137.10	125.58	118.18
Canada (123)	140.69	−0.3	134.05	121.89	−0.1	3.28	141.17	133.69	122.06	141.80	124.67	126.59
Denmark (38)	197.29	+0.0	187.98	205.14	+0.6	1.64	197.21	186.77	203.99	197.29	165.35	127.14
Finland (26)	139.51	−0.5	132.93	128.95	+0.1	1.63	140.23	132.80	128.78	159.16	125.81	131.27
France (128)	119.81	−0.8	114.15	125.26	−0.3	3.63	120.76	114.36	125.64	122.79	112.57	94.72
West Germany (100)	89.51	+0.6	85.29	91.42	+1.1	2.22	88.96	84.25	90.46	90.72	79.56	74.29
Hong Kong (49)	92.90	+0.2	88.51	92.96	+0.2	5.76	92.75	87.83	92.80	140.33	86.41	106.25
Ireland (17)	134.00	−0.4	127.67	138.98	+0.1	3.03	134.59	127.46	138.83	151.36	125.00	134.97
Italy (97)	83.72	+0.2	79.77	88.80	+0.7	2.50	83.52	79.09	88.19	86.88	74.97	70.49
Japan (455)	173.89	−1.8	165.69	156.91	−0.7	0.51	177.15	167.77	158.00	200.11	164.22	159.95
Malaysia (36)	180.74	+0.7	172.22	188.12	+0.7	2.55	179.58	170.07	186.87	185.03	143.35	151.49
Mexico (13)	261.98	−0.8	249.62	713.21	−0.8	0.71	264.08	250.09	718.95	271.98	153.32	167.88
Netherland (42)	120.55	−0.3	114.86	121.76	+0.2	4.25	120.89	114.48	121.52	122.22	110.63	103.67
New Zealand (24)	66.48	−0.1	63.34	61.36	+0.6	6.05	66.58	63.05	60.97	76.02	62.84	78.47
Norway (26)	180.48	−0.4	171.96	175.09	+0.1	1.46	181.12	171.53	174.38	198.39	139.92	122.68
Singapore (26)	160.59	+0.5	153.01	144.90	+0.7	1.91	159.79	151.33	143.92	161.98	124.57	123.01
South Africa (60)	151.35	+2.0	144.21	131.54	−0.8	4.07	148.39	140.53	132.66	151.35	115.35	121.06
Spain (43)	148.28	−0.1	141.28	140.14	+0.5	3.51	148.43	140.57	139.49	156.17	143.14	151.09
Sweden (35)	166.15	+0.1	158.31	163.57	+0.6	2.10	165.94	157.15	162.66	166.15	138.45	116.56
Switzerland (57)	79.60	−0.2	75.84	83.35	+0.1	2.30	79.79	75.56	83.30	81.29	67.81	78.99
United Kingdom (314)	141.67	−0.4	134.98	134.98	+0.2	4.33	142.28	134.74	134.74	153.33	133.28	131.73
USA (555)	132.90	−0.7	126.63	132.90	−0.7	3.38	133.83	126.74	133.83	133.83	112.13	110.60
Europe (1005)	118.87	−0.2	113.26	117.71	+0.3	3.48	119.15	112.84	117.36	121.70	112.63	105.28
Nordic (125)	161.36	+0.0	153.74	155.62	+0.5	1.82	161.38	152.83	154.85	161.38	137.95	112.98
Pacific Basin (674)	169.32	−1.7	161.33	153.02	−0.6	0.74	172.33	163.21	153.99	194.72	160.44	156.99
Euro−Pacific (1679)	149.23	−1.3	142.19	138.83	−0.3	1.63	151.13	143.13	139.29	164.22	141.58	136.33
North America (678)	133.27	−0.7	126.99	132.22	−0.7	3.37	134.17	127.07	133.10	134.17	112.79	111.45
Europe Ex. UK (691)	104.41	−0.1	99.48	107.04	+0.4	2.84	104.49	98.95	106.63	105.57	96.30	88.84
Pacific Ex. Japan (219)	114.58	−0.1	109.17	104.60	+0.6	4.97	114.70	108.62	103.99	137.65	111.93	121.37
World Ex. US (1875)	149.02	−1.2	141.99	138.40	−0.3	1.71	150.83	142.84	138.86	162.77	141.49	135.87
World Ex. UK (2116)	142.35	−1.1	135.63	136.69	−0.5	2.07	143.91	136.29	137.38	146.04	136.96	125.51
World Ex. So. Af. (2370)	142.22	−1.0	135.51	136.54	−0.4	2.26	143.73	136.11	137.15	146.65	136.67	126.07
World Ex. Japan (1975)	127.41	−0.5	121.40	126.16	−0.3	3.48	128.01	121.23	126.51	128.01	114.51	109.81
The World Index (2430)	142.27	−1.0	135.56	136.50	−0.4	2.27	143.75	136.14	137.11	146.51	136.66	126.04

Latest prices were unavailable for this edition.
Additional quarter-end constituent change: BNZ Finance (New Zealand) will be deleted on 3/7/89.